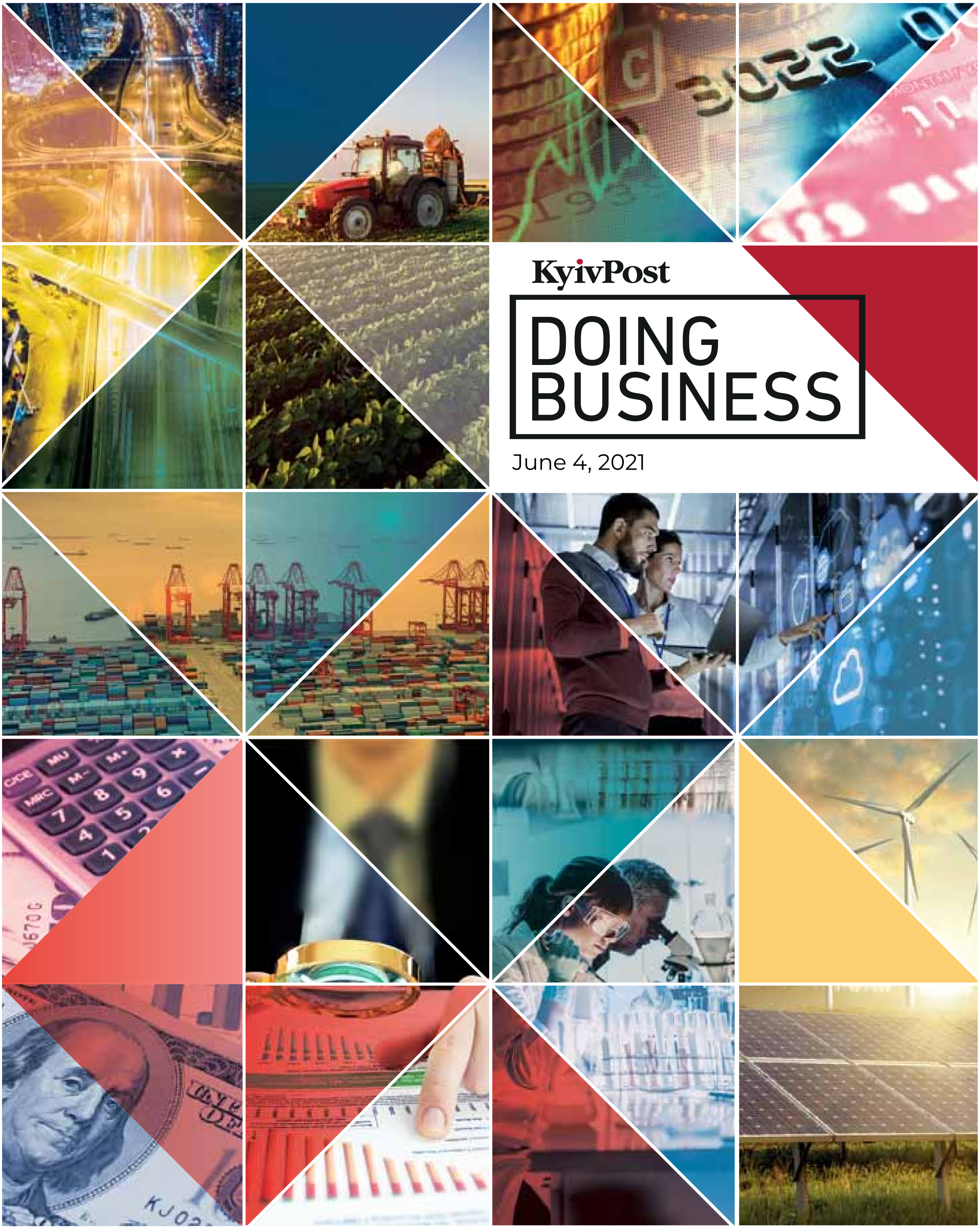
KyivPost

DOING BUSINESS

June 4, 2021



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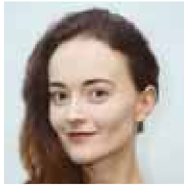

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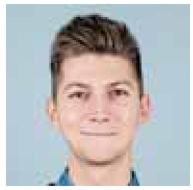

DENYS KRASNIKOV
Business Editor

The coronavirus pandemic is far from over, but vaccines are giving the world hope that normal life can return as more restrictions are eased, economies reopen and international travel resumes.

Volodymyr Zelensky's second year as president showed that much still needs to be done to modernize Ukraine's economy, instill rule of law and attract desperately needed foreign investment.

But Ukraine is bouncing back. While its gross domestic product fell by 4% in 2020, experts predict 4% growth in 2021. Despite a turbulent year, the banking sector is starting to generate profits again. The National Bank of Ukraine, which reduced lending rates from 18% in April 2019 to a historical low of 6% in June 2020, nudged them up to 7.5% in April 2021 to tame inflation, which was threatening to go into double digits again.

Slowly and cautiously, Ukraine will finally open its agricultural land market for the first time since the country's independence. The idea is to start small and get people used to the idea of buying and selling land. Once most restrictions are eased and proper regulations in place to prevent monopolies, a land market could supply a big economic boost since Ukraine has some of the most fertile soil in the world. Other bright spots: The nation's ever-growing number of tech startups raise millions of dollars in fresh investment every year, making Ukraine one of the best destinations for companies in need of competent techies.

Adaptation is Ukraine's key to success. Flexibility is the country's strong suit when it faces adversity. But it comes with a cost. Ukraine's resilience has a flip side: It's unpredictable.

Several government reshuffles, including two prime ministers, countless leadership changes in such key areas as energy, economy and health, signal inconsistency and uncertainty to investors. When the Cabinet of Ministers flouted principles of corporate governance to replace Andriy Kobolyev with Yuriy Vitrenko as head of state oil and gas company Naftogaz, questions were raised about Ukraine's commitment to limit the politicization of the economy.

Too much of the nation's economy is in the hands of government — including 3,500 state-owned enterprises, or SOEs, and half of the banking sector. Many of the SOEs are inefficient and collectively lose billions of dollars yearly because of corruption and bad management.

The large shadow economy, a symptom of persistent distrust for government, robs the state budget of billions of dollars yearly for public services and infrastructure. Oligarch privileges still drag down the competitiveness of the economy in many sectors. Outright dysfunction remains in the energy sector, marred by billions of dollars in debts.

Despite these tough legacies, Ukraine's economy still shows enough vibrancy to be hopeful about the future.

ALYONA NEVMERZHYTSKA
Commercial Director

We are happy to present you our 7th annual Doing Business magazine. This project has become a must-read for investors and our global audience. It provides an authoritative reality check on key sectors of Ukraine's economy.

Doing Business would not be possible without a general partner — Audi — and our nine section partners — CITI, Darnitsa, ELEKS, EY, GOL, Integrites, Shell, VKP and UMG Investments. Please support them. We thank them all dearly for supporting independent journalism and business coverage in Ukraine. Please enjoy the reading! Distribution points can be found by scanning this QR code.

Kyiv Post
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UKRAINE'S GLOBAL VOICE

DOING BUSINESS

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Exciting journey into the future

Porsche Ukraine has been on the market for 13 years. What are the main achievements of the company that you can be proud of?
Being an integral part of the big Volkswagen family and having the honor to represent AUDI in Ukraine is a great privilege you must take care of and work hard for it. I think that over the past 13 years we have done well and achieved remarkable results - stable and lasting establishment of the brand in the premium automotive segment of Ukraine, almost complete product range, professional and customer-oriented dealer network and last but not least excited customers that returns. And the best part is that the exciting AUDI journey is yet to come – more digital, more electric and more connected.

Deny Bostandzhiev Managing Director Porsche Ukraine LLC

What are the most difficult challenges that the company has faced during 13 years of work in Ukraine?
Doing business in Ukraine as foreign company is challenging undertaking. You need experience, patience, strong sense for integrity and a pinch of good luck. Of course, all the exceptional events that have happened in Ukraine in the second decade of this century, including the COVID pandemic that started in the last year significantly influenced our business activities. Nevertheless, we've always managed to successfully get through these difficult situations and succeed. In our corporate culture the challenges are seen more as a chance to change and look for new opportunities. After 13 exciting years on the local automotive market we are stronger and wiser than ever before and ready to challenge new boundaries.

How has the company changed after the introduction of quarantine, because the sale of cars is a close contact with people, which has become impossible in the usual format?
COVID completely changed the world in less than 3 months. Subsequent Lockdowns forced the global economy to find new safe ways for communication and distribution. Naturally, as well the automotive industry was forced to look for creative digital formats enabling the continuation of effective customer's contact and relationship in the sales process of new cars and to ensuring maximum customer safety in the after-sales and service period.

What were the key points that helped you quickly recover from a complete lockdown and what helps you to grow, develop and run a profitable business in Ukraine in such difficult conditions?
Full commitment, clear understanding of the situation, professional attitude and adequate behavior of our employees are the key factors in dealing with tha pandemic. In fact, from the very beginning, we didn't see the Lockdown as an obstacle, but a challenge and an opportunity to get better and get out of the crisis more united and motivated than ever.

The Volkswagen Group, which includes Audi, allocates large funds to ensure sustainable development and care for the environment. What are the most productive initiatives you can highlight?
Sustainable development and environmental protection is at the heart of the integrity principles of our company "Together4Inegrity". All our employees have successfully gone through specialized training, ensuring the understanding and implementation of our corporate compliance policy. Moreover, during this year's Earth Day on April 22. AUDI succeeded with his "Climate Day" in raising environmental awareness among employees. Around 85,000 AUDI employees across the globe participated in workshops and activities such as "plogging" to address one of the most important - or perhaps the most important - issue of our time. By the way, recently the UN Global Compact has confirmed the reinstatement of the Volkswagen Group as a participant. After a five-year break, the Group thereby returns to the world's largest corporate sustainability initiative.
From a product point of view, we are talking about billions of euros purposefully invested in research, development and production of the all-electric model range e-tron with the clear goal to offer the strongest range of electric models among the premium competitors and become completely CO_2-neutral by 2050 at the latest.

What social projects do you support in Ukraine?
As part of the global strategy for social responsibility, our company supports various socially oriented and sustainable initiatives in Ukraine. One of the projects we are especially proud of is SOS Children's Village. Since April 2020 we have been assisting the Kyiv Emergency Medical Services Center with vehicles and fuel in order to keep them mobile during the period of COVID and ensure smooth and safe service duty.

Audi introduces e-tron GT to the Ukrainian market. What are its features that appeal to you the most?
It is an Audi such as the world has never seen before: With the e-tron GT, the brand is demonstrating its plans for shaping an emotive and fascinating future of mobility.
The purely electric gran turismo from Audi offers dynamic performance in both engine versions: The e-tron GT quattro accelerates from zero to 100 km/h in 4.1 seconds, while the RS model takes 3.3 seconds.
The Audi e-tron GT represents yet another chapter in Audi's history: It is a supreme gran turismo, and the RS version comes with particularly pronounced dynamic handling. It combines an expressive design language with powerful electric output, high efficiency, and excellent everyday usability. These properties make it a pioneer full of character that is shaping the future of the brand.

The Audi e-tron has been the sales leader among new electric vehicles for many months in a row. Will you hold the lead this year?
After the successful introduction on the market last year of the high-performance e-tron and the subsequent e-tron Sportback, today the SUV model e-tron is number one in sales of premium BEV on the Ukrainian automotive market. The next BEV model with outstanding sporting genes, rebellious character and revolutionary design e-tron GT is to be launched soon. And yes, our intention is to sovereignly hold the first position in the market of premium BEV and attract and excite more and more customers in Ukraine.

What is your forecast for the development of the car market in the coming years? What plans does the Porsche Ukraine company define for itself and its brands?
The development of the new passenger cars market in Ukraine is really difficult to be predict. The presence of frequent changes in tax policy - import duties, excises, other taxes and fees; relatively high interest rates on loans; imports of used cars, in particular from USA and last but not least the still missing middle-class incomes allowing the purchase of a new car still hinder the return of the passenger car market to the high levels before the World Economic Crisis. However, we sincerely believe that all open topics will sooner or later be properly addressed and find their adequate solution.

Oleg Petrasiuk

The Deposit Guarantee Fund, a state agency headed by Svitlana Rekrut, is in charge of selling off assets belonging to insolvent banks to compensate depositors and creditors.

Deposit Guarantee Fund's Svitlana Rekrut: Cleanup progressing

Igor Kossov kossov@kyivpost.com

Seven years after "bankpocalypse," the orgy of insider lending and bank fraud that left only 73 banks standing from a high of more than 180 on the market, the Deposit Guarantee Fund sees an end in sight to its attempt to recover at least a fraction of the estimated $20 billion in taxpayer losses.

The institution has been working its way through 97 insolvent banks, trying to sell off their mountain of assets, once estimated to be worth $18 billion. Today, 51 banks have been completely liquidated, leaving several dozen more and about $3.6 billion to get through.

Managing director Svitlana Rekrut told the Kyiv Post that this will be just one of her challenges in the next few years.

"Next year will be a year of transformation or the fund's transition from old problems to new priorities," she said.

The biggest priority is, of course, its $4.1 billion debt to the state, which will have to be restructured. The fund's only hope of paying it back is to go after the dead banks' former owners and "related parties," to force them into monetary settlements in Ukrainian and overseas courts.

Only then can the fund meet its goal to ensure up to $122,000 per depositor, which is the standard in the European Union. Today, each depositor is guaranteed only $7,300. Rekrut said this limit will be increased to $21,800 by 2023. The fund is also expanding its coverage


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from banks to credit unions and insurance companies.

"This will send the message that the financial system is fully stable, that the crisis is over, that the market has absorbed it and we can move ahead with full-fledged development," she said.

Growing debts

Before the EuroMaidan Revolution that ousted President Viktor Yanukovych in 2014, Ukraine's banking system was rotten to the core. Pocket banks were rife, existing only to lend money to their owners' other companies at the depositors' expense.

When Ukraine's banking reforms kicked in from 2014 through 2016, the National Bank of Ukraine yanked close to 100 insolvent banks, with an estimated half a trillion hryvnias in assets, off the market. The Deposit Guarantee Fund, created to safeguard depositors, went to work.

But there was a problem. People who had money in these banks had to be compensated to the tune of $3.3 billion. The fund only had $254 million. To do its job, it had to take out huge loans from the Ministry of Finance and the central bank, with market-level interest rates of 9–12%.

With interest, the fund's debt to the government has ballooned to $1.7 billion plus $2.3 billion interest. There is no way that the fund can pay this off by liquidating dead banks' assets, especially after so much time has passed and the value of these assets has dwindled substantially.

"The fund is not a profit-making business and we have no source of income to be able to pay this interest back," said Rekrut. "For the fund to be a full-fledged link in (Ukraine's) financial stability network, it must be a strong, financially stable organization. Until we work out the financial legacy of 2014, that's not something we can talk about."

A strategy to restructure this debt has already been worked out with the Ministry of Finance, the NBU and international financial institutions, Rekrut said. Now it needs to be approved by parliament.

Under the plan, the fund will pay off the core debt using regular payments from active banks. Money to pay interest will have to be squeezed from "related parties," which have caused an estimated $8 billion in financial damage.

Rekrut acknowledged that recovering the full amount is unlikely. How much the fund gets back depends on political will in Ukraine and cooperation with international jurisdictions, where "related parties" often laundered their money.

"Global practice shows that (court) settlements are what leads to cash flow," she said.

Even under the best of circumstances, litigation can take years. The fund's cumulative recoveries from the banks' asset management and asset sales is only 12%.

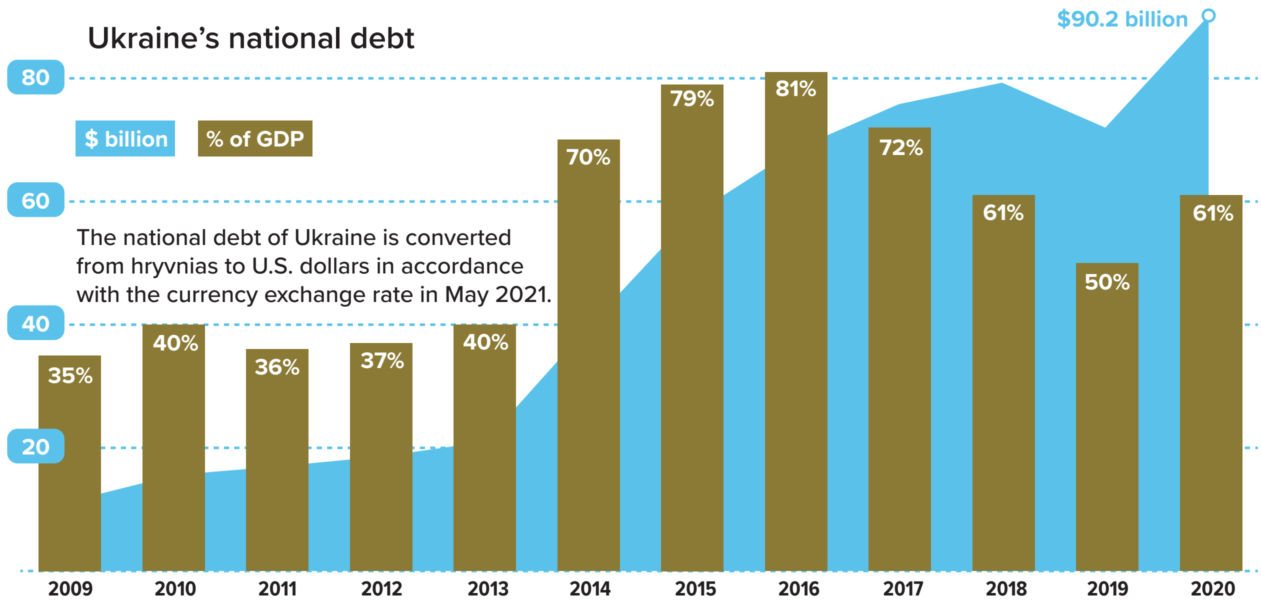
Fighting former owners

Fighting the banks' former owners, who like to use the courts to keep the fund from doing its job, takes a great deal of time and effort. There are 460 lawsuits open right now. The $3.6 billion worth of unsold asset pools that have partly been blocked from going to auction by court cases.

Rekrut said that while 60% of court cases are eventually resolved in the fund's favor, the remaining 40% still pose major obstacles. Lower courts tend to rule against the fund, while the cassation courts typically overturn these decisions.

"In the first and second instances, not everything is in order, unfortunately," said Rekrut. "We still get bans on (asset) sales to keep anyone from buying them. But in the Supreme Court, as a rule, fairness triumphs."

> **Next year will be a year of transformation from old problems to new priorities.**
>
> — Svitlana Rekrut, head of Deposit Guarantee Fund



Source: Ministry of Finance

Volodymyr Petrov

A woman uses a PrivatBank ATM in Kyiv on Dec. 10, 2020.

Despite these triumphs, it takes years to go through all three instances. In the meantime, as auctions are blocked and assets go unsold, their value quickly deteriorates. In 2015, the fund was able to recover 43% of bank assets. In 2020, it was only able to recover 1%.

"We have no problem selling assets, we have one problem: the cost of that asset," Rekrut said.

Still, there's progress.

Last year, Zelensky signed the so-called "anti-Kolomoisky" law, named after the billionaire oligarch Ihor Kolomoisky who faces lawsuits for emptying PrivatBank of $5.5 billion and sticking taxpayers with the losses.

The law prevents insolvent banks' former owners from reclaiming their moribund institutions. After it passed, the fund reclaimed four zombie banks and judges shut down several lawsuits brought by related parties.

"The system is working," said Rekrut. "Not completely but it's working."

Increased reaction speed

The scope of fraudulent schemes in the banking sector has also shrunk considerably. The banking collapse of 2014–2016 revealed massive, lurid schemes as shocking as they were damaging — with the now nationalized PrivatBank, the country's biggest bank, as the biggest Ponzi scheme.

That doesn't happen so much anymore, Rekrut said. More importantly, the NBU and the fund have each set up early warning systems, allowing them to respond much faster to a bank that may be headed towards insolvency.

As a result, the fund was better prepared to respond to recent cases like the November 2018 bankruptcy of the Ukrainian branch of VTB Bank and the December 2020 bankruptcy of Misto Bank.

Putting a dead bank's assets on sale used to take at least six months in 2014. After Misto went bankrupt, its assets were on sale in less than 60 days, which Rekrut called a "massive breakthrough."

This lets the fund recover more money and makes it harder for a bank's former owners to clean the place out before the liquidators arrive.

"Reaction speed monetizes into cash flow for creditors," Rekrut said.

But some banks have their own early warning system. Shortly before Bank Arkada was taken off the market in August 2020, it lost its main asset — its headquarters on Independence Square in central Kyiv — which it used as collateral in a loan agreement.

Rekrut believes this was a bogus deal, made to keep the property out of the hands of the fund, which is fighting for control of the building, having recently lost its case in the Kyiv Court of Appeals. Instead of waiting to win the asset before putting it on sale, the fund is selling investors the right to join the lawsuit.

Volodymyr Petrov

Andriy Boytsun: Ukraine needs to sell many of its state-owned enterprises, properly manage the rest

Andriy Boytsun is a corporate governance expert and editor of the State-Owned Enterprises Weekly newsletter.

By Brian Bonner bonner@kyivpost.com

The best estimates are that Ukraine's central government owns 3,500 businesses, with another 12,000–15,000 owned by regional or municipal governments. But nobody knows for sure.

What is known for sure is that they collectively bleed billions of dollars a year through corruption or mismanagement. These costs are shouldered by their owners — the taxpayers — who would otherwise spend this money on education, transportation, environmental protection, health care, pensions and more.

Andriy Boytsun, a specialist in corporate governance who publishes the State-Owned Enterprises Weekly newsletter, says Ukraine needs to sell off most of the enterprises, known as SOEs, or parts of them, and impose better corporate governance standards on the remaining ones.

He focuses on the top 15 businesses — big operations like the state railway company, oil & gas company and energy grid operator — which collectively account for 90% of the assets of all state-owned enterprises. Of them, only nine have independent supervisory boards — and none with the full governing powers called for by the Organization for Economic Cooperation and Development, which sets international standards.

B evolves into A team!

Martin Dohn - Sales Manager in Denmak

Thomas Sillesen will be known as the first international investor to win a major court case in Odesa.

Sales Team in Ukraine

His company, BIIR, succeeded in fighting off a raider attack on its building on Primorskaya Street in Odesa in 2017. In March 2020, Sillesen agreed to part ways with his former partners in Denmark, letting them have BIIR in Denmark, while he got full control over BIIR in Ukraine. He has renamed his company to Akkerman Solutions, to avoid confusion, and since the start of the summer of 2020, Akkerman has seen rapid growth. Securing a string of leading Danish industrial companies as customers, Akkerman has grown quickly in both Denmark and Ukraine. The company has recently finished renovating its Odesa HQ and opened a sales office in Denmark in January.

Akkerman/BIIR has been involved in engineering services for the wind industry in Denmark since the company was founded in 2013 in Luhansk. Today Akkerman has offices in Kyiv, Kharkiv, Odessa and Lviv, and will soon open one in Rubizhne. Akkerman has grown to now include virtually all engineering fields. The company is also involved in software programming for a string of customers.

Asked about Akkerman's main strength, Sillesen responds: "Our main strength is definitely our employees. Several have worked with me, for over 5 years, and during that time, learned how we Danes prefer honest precise answers, even when we do not like the answer. They combine this with the outstanding skills in engineering and programming that Ukrainians master. So naturally, Akkerman's services have already become popular with our customers in Germany and Denmark".

The Danish management style also means that Akkerman gives a lot of responsibility to the staff. "Instead of letting Danish engineers lead the team, we actually have Ukrainian team leaders. They then work closely with our sales team in Denmark. The sales team in Denmark is all engineers or programmers, so they understand the customers' needs perfectly, and can work closely with the team leaders in Ukraine. For the other markets, we have our sales team in Odessa, which mostly consist of persons familiar with software programming, but which will soon also include engineering specialists."

We then asked the CEO of Akkerman Solutions in Ukraine, Maryna Stiahailo, what it's like to work with a Danish owner, to which Maryna answered with a laugh: "Fun, but also very serious. The biggest cultural difference is that we never get reprimanded, and no one shouts at staff. There is always a good tone, but still we are expected to deliver outstanding results to our customers on a daily basis. I remember when Thomas took over management in 2019. There was a culture of coming late, and immediately staff was informed to come in, no later than 8 in the morning, because customers pay per hour, so we should deliver. Naturally, with 150 employees, somebody did not come at 8, but instead of screaming at them, Thomas, together with Alina or me, stood in front of the entrance from 7:30 each morning, saying good morning to everybody as they came to work. At 8, and especially after 8, people were not proud of arriving and getting this good morning greeting even though we did it with a big smile. So in a few weeks, everyone was arriving before 8, with the exception of a few guys. Thomas then asked me one morning, if one of those, who normally came late, had arrived. When I said no, he went to this guy's desk with his laptop, sat down, and started to work. The guy arrived at 8:15 just to see his seat was taken. Not knowing what to do, he circulated around the table for around 10 minutes, while Thomas was focusing solely on work on his laptop, staff began to smile and laugh a little, and finally Thomas looked up, and said with a smile Ohh... I did not see you come, I thought you were not working today, and then he stood up, and gave the seat to the guy. After that, nobody came late, without calling first to inform administration. And we could see, our productivity rose, while at the same time, we had a fantastic team and work environment. Now with Akkerman we carry that spirit on, while at the same time, have become even more customer oriented and efficient, as we work much more as a united team, than ever before, since now all is solely based around the Ukrainian engineers and programmers."

Management team at headquarter in Odesa

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"The best recipe in many cases is privatization," Boytsun told the Kyiv Post. "Privatization is always the first best solution."

Why so many SOEs?

There are three reasons why Ukraine keeps so many state businesses, Boytsun said.

Firstly, politicians enjoy regulatory and patronage power by having state businesses account for so much of Ukraine's economy. "If you oversee SOEs, it gives you power. When public wealth is poorly governed, it attracts the type of politician who is interested in running SOEs, rather than professional politicians who are interested in promoting better public policies. That is how poor governance of SOEs explains the poor quality of the politicians in this country. This is why I believe that reforming SOEs and ensuring proper corporate governance is a way of improving public policy." Political control of SOEs also leads to such situations in which the state, desperate to fill its $50 billion yearly budget, demands high dividends on net profits — up to 90% — which can starve SOEs of investment to modernize. In 2020, for instance, state-owned PrivatBank will pay $701 million in dividends to the state — around 90% of all dividends that will be paid by SOEs that year.

Secondly, oligarchs have become adept at manipulating state-owned enterprises for personal profit while sticking taxpayers with losses. A common way is to attach intermediaries that sell supplies to the SOEs at excessively high prices or receive goods at prices that are too low — or in the case of the State Gas Transit System Operator, for no price at all. The state company recently reported that regional gas companies owned by exiled billionaire oligarch Dmytro Firtash owe $326 million for natural gas supplies. The operator says it has no way to collect the debt.

Thirdly, a Soviet hangover of bureaucracy and centralized planning still lingers, even 30 years after the USSR collapsed. The mentality triggers fierce resistance to any change from workers, communities and politicians. Consequently, archaic work practices and featherbedding persist. One glaring example is Ukrzaliznytsia, the state-owned railway with at least 250,000 workers, more than twice as many as experts say is required.

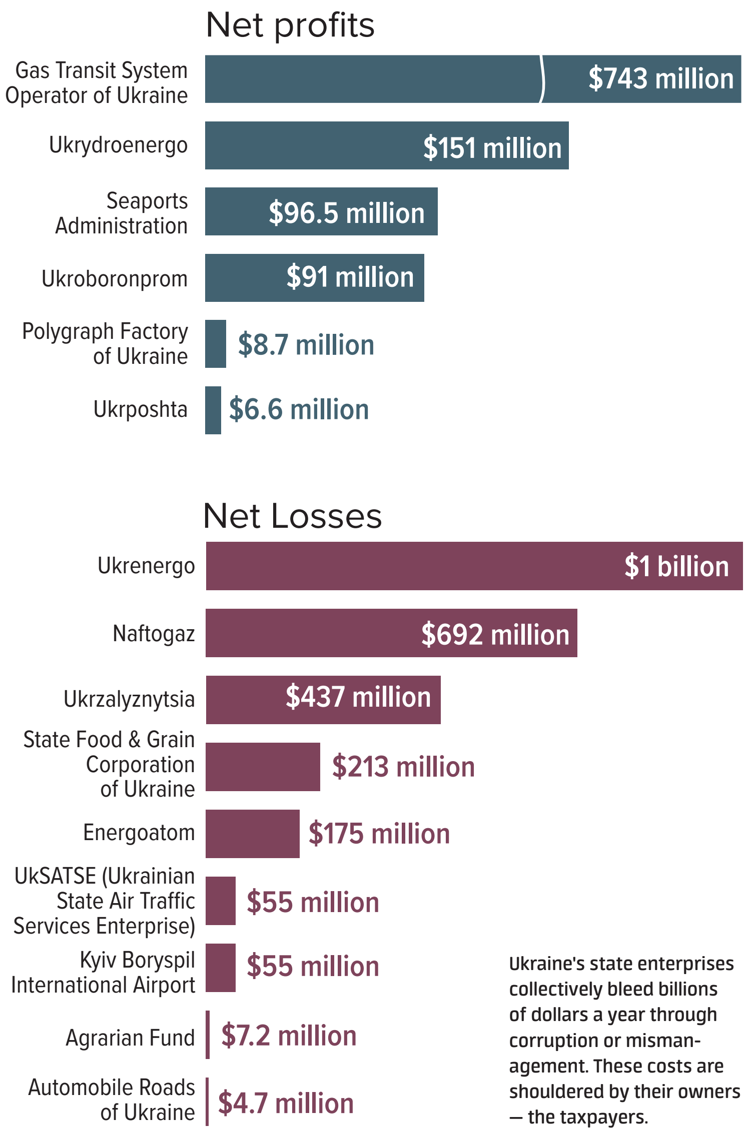
Ukraine's problems with state-owned enterprises are longstanding. They date back to early statehood in the 1990s and the creation of the oligarchs through non-transparent sell-offs of country's valuable assets like steel mills. Still, valuable assets remain today, Boytsun says, if they are properly managed or sold transparently.

3 reasons for SOEs

"In Ukraine, there are three situations in which the state should own a company," Boytsun says. They involve businesses that:

- perform a national security function that cannot be regulated properly if the firms are in private hands;

Ukraine's top 15 state-owned enterprises & their 2020 financial results



Ukraine's state enterprises collectively bleed billions of dollars a year through corruption or mismanagement. These costs are shouldered by their owners — the taxpayers.

- are monopolies and cannot be effectively regulated if the enterprises are privately owned; and
- serve critical public needs that the private market is not performing (such as Ukrposhta delivering pensions to rural residents).

"These are found in the principles of state ownership, which is not a bad document but legally very weak, unenforceable and not public," Boytsun says. When the three criteria are applied, he says, it's clear that most state businesses — in whole or in parts — "will have to go private."

8 state firms to sell

Boytsun can list endless examples. Here are eight of them:

> **Overseeing SOEs gives politicians more power.**
> — Andriy Boytsun, corporate governance specialist

- **Ukrzalyznytsia's cargo business:** This represents up to 70% of the business, depending on the season. "There is no reason it should be state-owned. Transport by roads is private, so why in God's name should transport by railroad be owned by the state? I can see an argument for the state to own the infrastructure and the rails and ensuring equal access so people can compete. But the transportation itself — the cargo business — if you privatize that, we're talking about billions of dollars" for the state.
- **State Food and Grain Corporation:** "They lost about Hr 5 billion ($181 million in 2020). That's a lot for a single company that most Ukrainians don't know exists. There's no reason for it to be state-owned. Someone should take the responsibility to liquidate it."
- **Artymsol salt mines.** "Do you have a problem buying salt? What is the rationale for the state to own a salt mining company?"
- **Naftogaz.** "It cannot be privatized in its present form. It needs to be restructured and parts of it can be privatized." At the same time, some functions can be privatized. One small example: An internal company cleaning service bid $326,000 more per year than the winning bid from a private firm.
- **Kyiv Boryspil International Airport.** "I don't see a reason for a state-owned airport." Air traffic control, on the other hand, is a proper government function, he said, which is run by the Ukrainian State Air Traffic Services Enterprise, one of the top 15 SOEs.
- **Automobile Roads of Ukraine.** It is run by Ukravtodor, the State Service of Roads. There is no rationale for the state to own it, according to Boytsun. "Since the services that the company provides are readily available from private providers in the competitive market, Automobile Roads of Ukraine (ARU) should be privatized or liquidated. There is also a conflict of interest in Ukravtodor being the owner of ARU, the regulator and the main customer for road construction and repairs in Ukraine."
- **Hotels.** State ministries and other government agencies own hotels. One of them, the Kozatskiy Hotel on Kyiv's Independence Square, is owned by the Ministry of Defense. It was investigated by the National Anti-Corruption Bureau, which alleges that nearly a half-million dollars in payments from guests of this hotel ended up in the bank accounts of public officials. The agency found similar schemes in other state-owned hotels. No charges were filed.
- **Ukrposhta.** While it delivers pensions to rural areas — a service that no private entity will perform because of low payments — the state's role is "not necessarily perpetual." Boytsun says that private companies can do the task better. Additionally, Ukrposhta owns one of the most valuable pieces of real estate on Independence Square. It should be sold, Boytsun said.

Ukraine's National Economic Strategy 2030

The following are highlights of Ukraine's economic development strategy adopted by the government.

Increase foreign direct investment to **$15 billion** per year
Double gross domestic product in **10 years**.
Increase exports to **$150 billion**, triple the 2020 total.
Increase labor productivity by **1.7 times**.
Decrease unemployment rate from **8.6% to 6%** in 2030.
Reduce the share of the public sector of the country's banking system to **25%** from the current 54%.
Hold state budget deficit at **2-3%** of GDP.
Hold the ratio of public debt to GDP at **30-40%**.
Increase the share of small and medium-sized businesses of total exports to **40%**.

Source: Ministry of Economy

Progress made

After the EuroMaidan Revolution prompted President Viktor Yanukovych to flee Ukraine in 2014, Ukraine moved to shore up its corporate governance. Boytsun was the architect of pioneering corporate governance reforms at Naftogaz, historically a cesspool of insider profiteering that cost taxpayers billions of dollars yearly, such as through Firtash's RosUkrEnergo gas intermediary.

All post-revolution governments have refused to relinquish their powers to appoint the heads and supervisory boards of SOEs, as well as approve financial plans. "The government is reluctant to give up those levers of control," he said.

Ideally, Boytsun says, a separate entity called the National Wealth Fund should be created to oversee and ensure proper governance of state-owned businesses. Their duties would include overseeing the hiring of CEOs, ensuring proper financial reports and promoting greater transparency, for instance, of top salaries.

"The people as ultimate owners should know how much management gets paid and why," Boytsun says. While SOEs are required to disclose individual top salaries, the measure is poorly enforced.

In a recent financial report, for instance, Naftogaz lumped together the 2020 compensation of its top 17 executives at $25 million, with no individual breakout or explanation for why the compensation doubled over the previous year, when the state company lost $684 million.

"Since 2013, we've made a lot of progress," Boytsun said. "I cannot be happy with the progress as such until it's complete." ■

Kostyantyn Chernichkin

A PrivatBank customer outside one of its branches. PrivatBank was nationalized in 2016 after its previous owners, Ihor Kolomoisky and Gennadiy Bogolyubov, allegedly stole $5.5 billion through insider lending. They deny the accusations.

Sergii Leshchenko: Bank fraud is perennial, unpunished in Ukraine

Sergii Leshchenko
mail.pravda@gmail.com

The other day it became known that a top suspect in the $5.5 billion fraud case of PrivatBank, former Chief Executive Officer Oleksandr Dubilet, is almost guaranteed to escape punishment.

He moved to Israel and received Israeli citizenship. This country does not extradite its citizens. As it was proved by the case of one of the fugitives of the Viktor Yanukovych era, former Energy Minister Eduard Stavytsky, who changed his last name to Rosenberg in Israel, Israel will not investigate crimes committed in Ukraine. Therefore, moving to Israel is an almost guaranteed ticket to freedom, no matter how corrupt the immigrant may be.

The fact that Dubilet lives with a new passport in Israel almost certainly breaks the chain of the PrivatBank case investigation. After all, only Dubilet could testify against the former owner of the bank, Ihor Kolomoisky, who communicated with him as his trusted person. And the embezzlement of $5.5 billion, including the $4.8 million that was siphoned from the bank the day before it was nationalized in 2016 — none of that could have taken place without communication between Dubilet and Kolomoisky.

This is a disappointing intermediate result in the history of the most high-profile banking fraud that ever happened in Ukraine, when the investigation can reach only the executors of the corrupt schemes, leaving their architects unpunished.

The history of PrivatBank is typical not only because the key participant managed to escape charges. In general, it shows that the banking sector of Ukraine has been a pasture for top-level corruption for decades. Money was stolen under schemes implemented not in dusty factories, but in air-conditioned offices of business centers.

This is a marathon of 30 years when hundreds of banks became insolvent in Ukraine, and in their place, like mushrooms, new ones appeared, and no one was punished for it.

First one to fall

The first high-profile bankruptcy took place in Ukraine Bank, which went under in the early 2000s. The building of the bank now houses the central office of the Justice Ministry, and only the sculptures of cows in the garden remind us that an agrarian bank was once located here.

Ukraine Bank was liquidated in the same way as PrivatBank, under pressure from the International Monetary Fund, which realized that the black hole in the bank's ledgers was becoming too large and capable of infecting the country's entire financial body. Ukraine Bank obediently loaned money at the request of top officials, who defaulted. One of such cases almost cost the job of the then-Deputy Chairman of the Board and future president of Ukraine — Viktor Yushchenko.

The bank lost $25 million. It transferred 2 billion rubles to Russia, but never received the equivalent in dollars. Before the transaction, the then-head of Ukraine Bank, Vadym Hetman, instructed young subordinates to handle it — Ihor Mityukov, head of the international settlements department, and Yushchenko, the bank's deputy head. In the future, Mityukov became finance minister, and Yushchenko — the head of the National Bank of Ukraine, the prime minister, and eventually president.

Many years later, when the case was under investigation, prosecutors charged some business people who had already fled Ukraine for Russia. At the same time, the investigator pointed out that the crimes committed by them became possible "due to the negligence of officials of the Ukraine Bank."

The case against Yushchenko was closed as the statute of limitations had expired. And only when he became president, it was closed again under new circumstances, fully rehabilitating him.

The story of Ukraine Bank is the answer to the question of why Ukrainian banks collapse: because of impunity and their use in fraudulent and political schemes.

Ukraine Bank will emerge in Yushchenko's life once more. When Yushchenko joined the opposition, another politician, Yuriy Lutsenko, reportedly spread damaging materials against Yushchenko. Political consultant Ihor Shuvalov said in an interview that he witnessed Lutsenko sell documents that allegedly showed that Yushchenko paid for his daughter's education with the money of the Ukraine Bank. The buyer was a political technologist who at the time worked for Viktor Medvechuk, a pro-Russian Ukrainian politician.

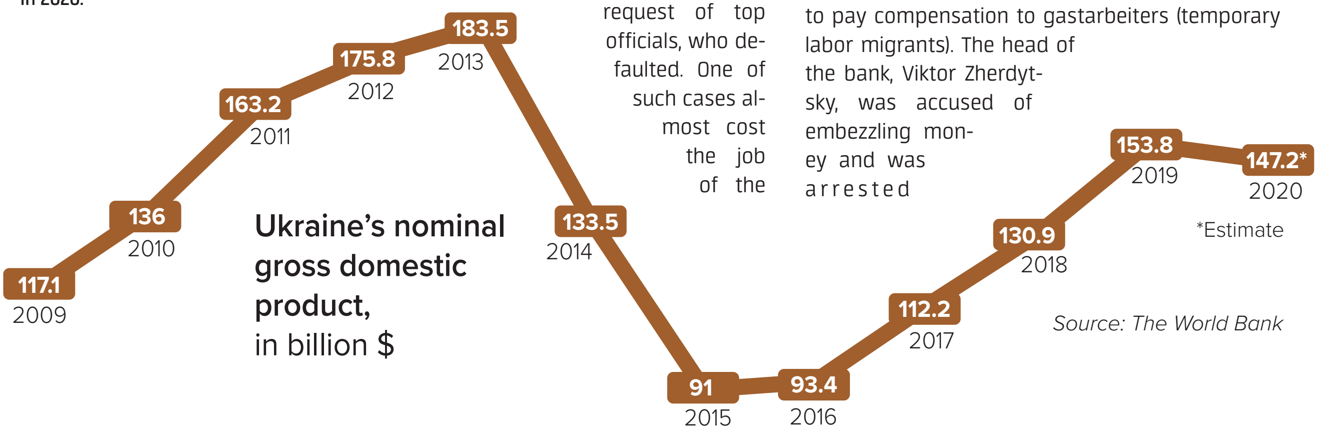
Messages by the Kyiv Post to Lutsenko and his assistant, Larisa Sarhan, went unanswered.

Another high-profile history of insolvency in the first years of independence related to Gradobank, which was used by the German government to pay compensation to gastarbeiters (temporary labor migrants). The head of the bank, Viktor Zherdytsky, was accused of embezzling money and was arrested twice and eventually acquitted, both times — once in Ukraine and the second time in Germany.

As a result of this bankruptcy, Ukraine was left with a collection of 735 paintings by both classical and contemporary artists, from Mykola Pymonenko to Anatoliy Kryvolap. It was collateral for the loan agreement, and, as it became known later, some of the paintings disappeared — those that were stored in bank Veles.

I mention this name because Veles Bank later became yet another symbol of fraud. At that time, the bank already had a new owner — a lawmaker

Ukraine's economy had been gradually growing since 2016, but then the pandemic arrived. Because of the coronavirus restrictions that hit many businesses, the country's economy dropped by 4% in 2020.



from the Yulia Tymoshenko's faction Batkivshyna — Kostyantyn Bondarev. In 2015, the National Bank headed by Valeria Gontareva cleaned the market of phantom banks and discovered a strange transaction. Through this bank, Bondarev tried to withdraw from Ukraine almost half a billion dollars on fictitious documents, ostensibly to repay the debt abroad. When the NBU began an inspection, it turned out that the entire documentary database was forged as well as the source, the residence permit and property documents.

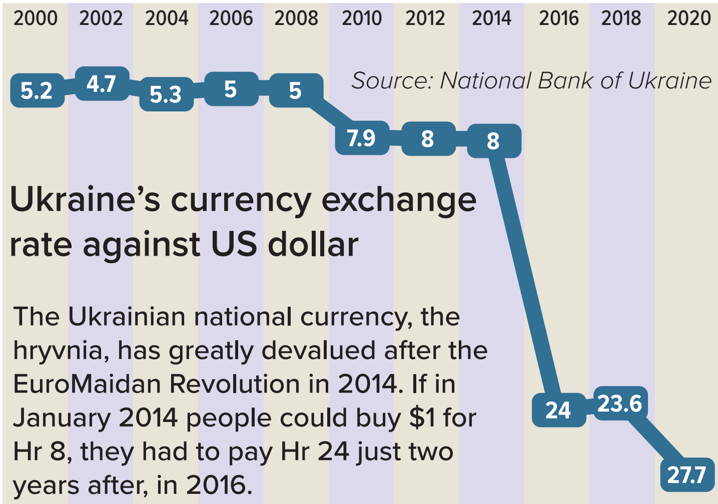
The money was to be transferred to a company with an office in Latvia, which was founded by a Chinese citizen. And the money was transferred by a person who collected this amount as if selling some property to a company that was established by a combined harvester operator from Kharkiv Oblast. This was pure fiction. As a result, when the National Bank decided to liquidate Veles, they could not even find it: the bank terminated the lease agreement and left with all the equipment, servers, and documents.

There are many stories that are similar. Another example recently discovered by the Security Service of Ukraine was Misto Bank. The management of the bank falsified financial documents to hide insolvency when reporting to the National Bank to get loans. In the report, they claimed ownership of the soybean processing plant which accounted for 13.7% of the bank's total assets. Receiving inaccurate data, the NBU issued loans to the bank to maintain liquidity.

Another example of avoiding liability is how Mykhailivsky Bank collected money from depositors by misleading them. People thought that their deposits were protected by the Deposit Guarantee Fund because all the documents were processed at the bank's premises. But it turned out that the other party to the agreements was not the bank, but companies with names designed to deceive inattentive customers. And, unlike deposits in banks, their deposits were not guaranteed.

To save the deceived investors, parliament had to pass a special law. But, in the end, the owner of the bank, Viktor Polishchuk, escaped punishment. When his fraud was exposed, he claimed that he had allegedly sold the bank before it went bankrupt. Since there were 11 fictitious new owners, each had a share of less than 10 percent, and by law, it was not necessary to apply for approval to the National Bank. This made it possible to feed the legend of the backdating sale of the bank.

The National Bank did not believe Polishchuk's legend yet he did not receive any punishment. Ukraine's State Bureau of Investigations only focused on his top managers, who received suspicions. Polishchuk himself was part of former President Petro Poroshenko's entourage and negotiated the purchase of Channel 112 before Viktor Medvedchuk bought the media outlet.



Ukraine's currency exchange rate against US dollar

The Ukrainian national currency, the hryvnia, has greatly devalued after the EuroMaidan Revolution in 2014. If in January 2014 people could buy $1 for Hr 8, they had to pay Hr 24 just two years after, in 2016.

However, in addition to clearing the market of phantom banks, there were also opposite cases — when banks that were mostly well were destroyed as a result of political vendetta.

That was the case with Forum Bank that was declared bankrupt in the spring of 2014 which was doing well financially. The reason for the destruction of Forum could have been the hostile attitude of Poroshenko to the owner of the bank Vadym Novinsky. A video of their heated quarrel in 2014 is a hit on YouTube. Poroshenko's ally Stepan Kubiv, who was in charge of the National Bank at the time of Forum's destruction, had worked in the banking sector for many years, but, according to media reports, had not earned the best reputation there.

Real reform began after the release of Kubiv and the appointment of Gontareva. Its market cleansing still provides an opportunity to talk about the banking sector in positive terms. This is a question for law enforcement and courts, which have ensured impunity for many scammers, either by turning a blind eye to their abuse or allowing them to enjoy freedom in Vienna, as happened with the owner of several banks, agrarian oligarch Oleg Bakhmatyuk.

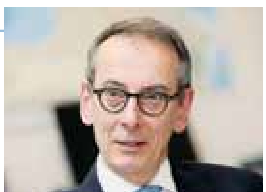
Odesa-based Misto Bank went bankrupt in December 2020. According to the NBU, 2,282 people representing 78% of the bank's depositors each had less than $7,000 in the bank and will get their money back in full.

Oleg Petrasiuk

Volodymyr Petrov

A drone picture shows an aerial view of Khreshchatyk Street and the Ukrposhta headquarters in downtown Kyiv on March 9, 2021.

Solving Ukraine’s short-term crises, exploiting its long-term opportunities



Matteo Patrone

‘When the European Bank for Reconstruction and Development was set up 30 years ago, it had one clear mission: to support the transition of countries in the former communist bloc towards a market-based economy. All our investments had, one way or the other, this overarching objective.

Since then, our region has evolved, and we have evolved with it. The transition to a market economy has accelerated in some countries while others have lagged behind. For many of them, accession to the European Union has been a marker of success.

More recent investee countries such as Egypt and Turkey have become our biggest investment destinations, together with Ukraine.

Today, we operate in 38 economies in Europe, Asia and Africa. Our contribution is grounded in a focus on private-sector development, combining investment, policy and technical assistance with the ability to make selective interventions in the public sector.

The bank is responsive to market and reform conditions and innovative in helping economies to become competitive, well-governed, green, inclusive, resilient and integrated. We believe that progress on these six qualities of a sustainable market economy will lead to greater growth and prosperity, more jobs and opportunities, and a better environment for people, and will support the achievement of the United Nations' Sustainable Development Goals, or SDGs.

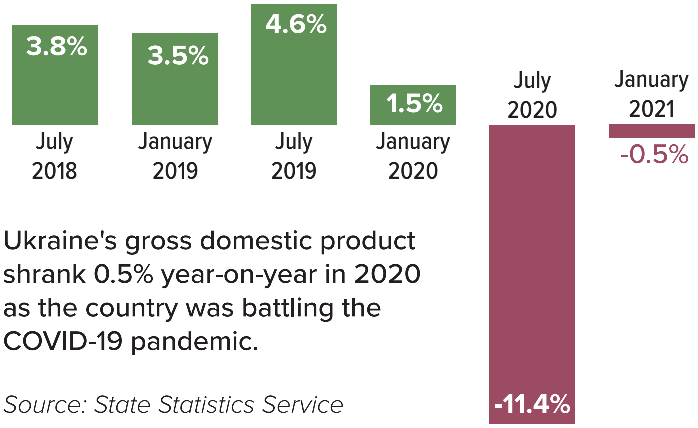
The quality of good governance is a key determinant of differences in economic performance between and within countries. This quality has become more critical given the increase in state involvement in the economy in response to the COVID-19 crisis.

Ukraine is certainly no exception, and we are redoubling our efforts to stabilize and bolster corporate governance reform, in close collaboration with other international partners.

The pandemic has made collective action to deliver the sustainable development goals even more urgent and has heightened the relevance of three overarching themes that will guide EBRD operations in the next strategic cycle:

- Supporting the transition to a green, low-carbon economy to align with the principles of the Paris Agreement. The goal is to raise our green finance to at least 50 percent of our annual investment by 2025.
- Promoting equality of opportunity by supporting access to skills and employment, finance and entrepreneurship and services for women, youth and those in less developed regions, working with and through the private sector. There will also be a focus on mitigating potentially adverse impacts, including from the digital and green transitions.
- Accelerating the digital transition, recognizing that technology can be a key enabler of progress in economic transition.

Ukraine's GDP growth



Ukraine's gross domestic product shrank 0.5% year-on-year in 2020 as the country was battling the COVID-19 pandemic.

Source: State Statistics Service

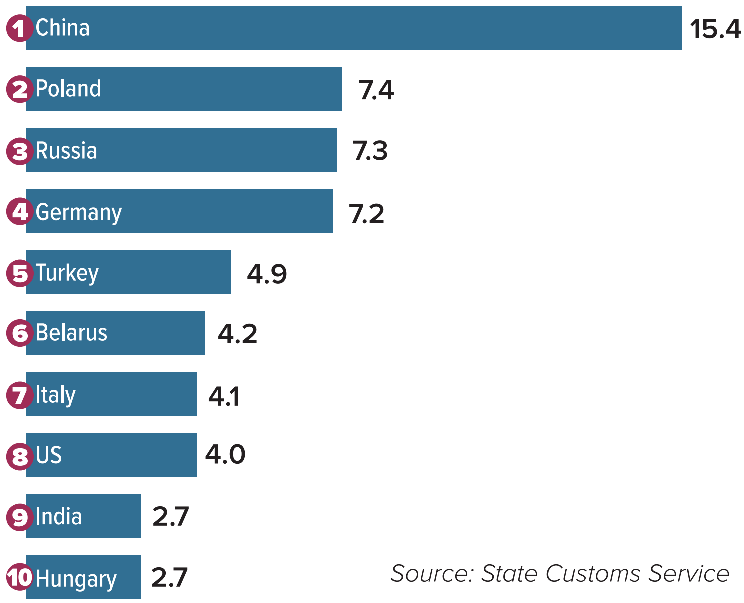
Underlying economic and political conditions strongly influence the bank's capacity to support its countries of operations in their progress to sustainable market economies. The COVID-19 pandemic and economic crisis are still unfolding. This fluid context will shape both the challenges that our clients face and the Bank's ability to support countries' responses to the crisis.

Annual gross domestic product growth rates in the EBRD regions have roughly halved from the levels seen before the global financial crisis, and estimates of potential growth in these economies average around 3 percent, limiting the prospects for income convergence with advanced economies. Measures to contain the spread of COVID-19 have had a dramatic effect on the economic outlook, with an estimated contraction of 2.2 percent (4 percent for Ukraine) in the EBRD regions for 2020, before a recovery to 3.6 percent (3.5 percent for Ukraine) in 2021, with per capita incomes returning to pre-crisis levels by early 2022.

However, there is considerable uncertainty in making projections at this time. Significant risks remain in economies that are highly dependent on

Source: World Bank

Single nation trading partners,
turnover in 2020, in billion $



Source: State Customs Service

The pandemic has made collective action to deliver sustainable development goals even more urgent.
— Matteo Patrone

tourism, commodity prices and remittances. Public indebtedness is projected to increase significantly because of the COVID-19 crisis, and debt sustainability will be a key concern. The crisis is also reshaping financial sectors, as private debt increases and non-performing loans rise.

A number of factors merit consideration when assessing the prospects for growth in the years ahead:

- Demographics: If the labor force grows more quickly than the population, living standards rise. This is unfortunately not the case for Ukraine, where, like other economies in the EBRD regions, the challenge is to manage an ageing workforce and growing old-age dependency ratio. Cross-border and within-country migration is a medium-term factor that affects growth in emerging economies, including Ukraine, with younger and better-qualified workers frequently the most mobile.
- Trade, global supply chains and onshoring: Ukraine is yet to be fully integrated into global supply chains and this has partially shielded its economy from supply chain disruption. However, the crisis presents an opportunity for the Ukrainian economy, as firms may be seeking to increase their operational resilience by diversifying the locations of their suppliers, reducing dependence and focusing on regional supply chains.
- Digitalization: The crisis has accelerated digital transition. Automation may quickly erode the advantages of a development model that relies on lower wages in manufacturing. Technology also leads to the creation of better-paid and higher-skilled jobs at the expense of mid-skilled jobs, resulting in greater inequality. However, businesses that are able to integrate new technologies can take advantage of structural changes accelerated by the crisis, such as the move towards business models (e-commerce, for instance) that require lower upfront capital expenditure.
- Resilience to future shocks: The course of the COVID-19 outbreak is highly uncertain and it is impossible to rule out future pandemics. The level of any direct impact — and the capacity to recover quickly after a new shock — depends on the resilience of economies. Some countries where the EBRD invests, including Ukraine, are judged to have relatively low economic resilience to renewed health crises.

The creation and preservation of sustainable jobs will be a key goal for policymakers. Workers in economies that have a greater degree of informal employment are worse affected. In addition, the sectors most impacted by the crisis — for example, hospitality and tourism — are sources of employment for women in particular. Overall, the crisis is likely to accelerate trends in inequality, with the most adverse effects falling on already disadvantaged groups.

The vast majority of countries, including Ukraine, are committed to the international community's objectives, set out in the Paris Agreement of 2015, to limit the increase in average global temperatures to well below 2 degrees Celsius. Although contributing a relatively small part of global emissions, countries like Ukraine remain more energy-intensive than comparable peers. As a result, making the transition to a more energy-efficient and decarbonised economy offers a growth opportunity. As we have seen recently in the renewable sector of Ukraine, there is a risk that populist measures and a need to address the consequences of the COVID-19 crisis will dissipate the political will to tackle climate change. On the contrary, we believe that there is an opportunity to integrate a "tilt to green" into the public and private investment programmes aimed at speeding up recovery from the coronavirus crisis.

For the EBRD, the overarching goal is to preserve and accelerate transition during the phases of recovery from the pandemic and to continue tackling broader, deep-rooted challenges, including environmental issues, demographics and technological transformation.

This endeavour requires willing partners and political commitment to a positive reform trajectory. We remain committed to and trustful in such a partnership with the Ukrainian leadership.

Matteo Patrone is the European Bank for Reconstruction and Development's managing director for Eastern Europe and the Caucasus.

IN PARTNERSHIP WITH FEEDNOVA

Oleg Petrasiuk

A tractor drives through a field in Kyiv Oblast on April 14, 2021. This July, Ukraine is lifting its ban of farmland sales, a move that promises to be agriculture's biggest challenge since the country's independence.

As land goes on sale, agriculture industry expects boom to follow

By Alexander Query query@kyivpost.com

This year, the local agriculture industry will face its biggest challenge since the country's independence.

Starting in July, the government will lift the ban on farmland sales, with big limitations.

The move will effectively open some of the country's famous fertile soil — chornozem — for sale to Ukrainian farmers, who used to lease it.

The sales will be limited to 100 hectares per individual to avoid agriculture monopoly; land will only be available to legal entities beginning in 2024; foreigners will have access to the market after 2024 if a nationwide referendum approves it.

This breakthrough reform should be implemented gradually to ensure full support from Ukrainian farmers, because land property is a historically touchy subject, Agriculture Minister Roman Leshchenko told the Kyiv Post. "Step by step," he said.

Nadiia Kaznacheieva,
Head of investments, UMG Investments

RENOVATING COMPANIES LIKE FLATS: private equity opportunities for Ukraine

"Private equity is a lot like buying a flat and renovating it. All the repairs add value" says Nadiia Kaznacheieva, Investment Director at UMG Investments, a leading Ukrainian investment firm. "Ukrainian companies could really benefit from this approach."

Private equity has been on the rise globally yet it remains misunderstood by Ukrainian managers. Many believe it's all about buying assets on the cheap only to sell them later at a profit.

Rather, Kaznacheieva says, private equity is about doing your homework as a business manager – understanding a business in depth, developing a solid business plan, installing the best managers, cleaning up finances and implementing best practices (especially in terms of transparency and corporate governance). "There is a specific private equity culture and approach," Kaznacheieva explains.

UMGI recently entered the private equity sector with its acquisition of a stake in Feednova*, a producer of high-protein feed additives and animal fats. Together with Ukrainian and Dutch partners, they plan to start production soon, targeting not just the Ukrainian but also international markets with high-quality animal feed.

Private equity – how does it work

Despite becoming a common term in business media, private equity remains a mystery for many on the market, UMGI's investment director says. According to her, one of the most important misconceptions concerns the approach and mindset of private equity. "People think this is like speculation," Kaznacheieva says with a hint of disappointment. "It's actually the opposite – private equity takes a strategic investor perspective."

While there are thousands of firms, each with its own culture and way of working, there are a few things in common.

In brief, private equity funds find interesting but undervalued companies whose operations and finances can be improved, acquire a share of ownership in a private deal (as opposed to buying on public markets), and spend several years investing and transforming the company. After that, they sell it (a term known as "exiting"), either on the private market or via a public offering.

"In a way, it's like buying and renovating a flat," Kaznacheieva sums it up. The more, and better, repairs and tuning you do, the better the final exit price.

The time horizon between entry and exit is critical – during this period, the private equity fund has the opportunity to transform the company, but also bears all the risks involved. Earlier this time horizon would be less than 5 years, Kaznacheieva says, but recent studies by global consultancies Bain and McKinsey show it is extending, often to 6 or 7 years.

Kaznacheieva adds that UMGI is well positioned in this regard as it only has one limited partner (what investors providing capital are called in the private equity world). The firm maintains the flexibility to exit at the best possible moment, rather than having to hurry to meet someone's timetable and agree to a sub-optimal deal.

A global boom for the industry

Private equity is enjoying a good run. A recent article in the Financial Times noted the number of private equity-backed companies in the United States rose from less than 2,000 to nearly 8,000 between 2000 and 2018. Meanwhile, publicly listed companies declined from 7,000 to around 4,000.

Similarly, the private markets have added a whooping $4 trillion to assets under management over the past decade – from $2.4 to $6.5 – according to a study by McKinsey.

There is a long list of factors supporting the industry. Interest rates on financing of deals are at record lows – something that has also improved in Ukraine, Kaznacheieva says. The list of companies ripe for transformation has grown.

Despite the global growth, the private equity industry is still heavily United States-focused, says Kaznacheieva, adding that around 80% of the top 25 private equity firms are from the U.S. "It's a mature market, not just in terms of the market, but also the culture," she explained.

A unique culture of transparency, diligence and hard work

This private equity culture is indeed a unique driver of the industry. Contrary to some misconceptions, the industry is not all about buying companies and slashing jobs, or just waiting for the market to turn around.

"People think that we just sit and wait," Kaznacheieva says. "The believe that private equity will not add value."

In fact, the opposite is true. While there are many different strategies, most funds are about hands-on investment, overhauling old models via reorganization and operational improvements. That means installing good managers, cleaning up finances and running an efficient and transparent business.

This transparency is important for the sector. By having more reliable and open books, Kaznacheieva notes, private equity funds can attract bank financing on better terms. It also helps secure a better valuation on exit, because buyers understand the company better and have lower risk.

"The more transparent you are, the better the deal you can get," Kaznacheieva sums it up.

This doesn't always sit well with company managers in Ukraine. Kaznacheieva recalls one manager telling her it's "cheaper to not pay taxes, than to pay taxes and attract a private equity partner."

Short-term thinking leaves a lot of value on the table. It is also a reason why having good managers you can turn to – that can join a company and clean things up – is a real competitive advantage for private equity firms, the expert says.

This is one of the advantages of UMGI, which has deep operational expertise understands production. "Our transparency and expertise are why partners choose us," the UMGI investment director explains.

Large private equity players have another advantage. By working with many companies, big funds build relationships with top-tier managers who can come and help them steer acquired firms towards profitability.

"When you grow businesses, you typically need more people," Stephen Schwarzman, the CEO of the world's biggest private equity fund with assets under management (the value of companies managed) of over $600 billion, told a global industry forum last year.

The private equity opportunity for Ukraine

Private equity is a great opportunity for Ukrainian companies, says Kaznacheieva. There are a large number of sectors that offer interesting investment opportunities, including recycling, mining and agro-processing. "Healthcare is a blue ocean," the investment expert adds.

The industry is not exactly new to the country. Horizon Capital was one of the first players on the market after it was spun out of the Western NIS Entreprise Fund in 2006. Since then, others have come in, like Abris Capital or Advent International, a major Boston-based firm. But the crisis of 2008-9 led to many firms leaving the market.

Since then, some new names have appeared – Dragon PE, Diligent Capital Partners and others.

But there is still an opportunity to seize, Kaznacheieva notes. Global private equity firms are sitting on record levels of "dry power," an industry term for capital that has been raised but not yet invested, exceeding an astounding $2 trillion as of end of 2019. Part of that capital could come to Ukraine.

The benefit for the market is not just additional investment, Kaznacheieva explains. "Every private equity firm works a bit differently," she notes. "This experience is very valuable."

Private equity has a wide range of benefits – healthier and better performing companies, stronger and more transparent governance practices, increased tax revenues and more innovation. So what is holding back its wider adoption?

According to Kaznacheieva, companies not only need to understand the benefits and how the industry works, but also find the right partner with the right management capabilities and sector expertise. You also need to have a strong culture and know how to work with people.

"Private equity, it's a bit like marriage. You need the right 'chemistry' with people. When you have it, everything else is working well," she says.

**FEEDNOVA – modern enterprise for production of high protein feed additives for agricultural and domestic animals. It is an investment project of «Effective Investments» group of companies, Mada Participations B.V. (the Netherlands) and UMG Investments. The total project investments are more than USD 20 million.*

Fertile country

Ukraine is one of the most fertile places on the planet, with 25–30% of the world's reserves of black earth. The country boasts around 42 million hectares of agricultural land, covering 70% of the country.

At present, 32 million hectares are cultivated annually, representing an area larger than Italy.

Agriculture is Ukraine's largest export industry, accounting for 10% of the gross domestic product in 2019; it brought over $22 billion to the country that same year.

The country is among the top three grain exporters and one of the world's leaders in exporting barley, sunflower seed, sunflower oil, rapeseed and rye.

Ukraine shipped 57 million tons of grain to international markets in 2020, representing around 16% of the global grain exports. Ukrainian agricultural exports enjoy a growing profile in key global markets like China, Egypt, India, Turkey and across the European Union.

Looking ahead, Ukraine aims to provide food to the United Arab Emirates, with which President Volodymyr Zelensky signed a $3 billion deal in February 2021, as well as to a number of other countries in the region including Saudi Arabia and Qatar.

April's soaking rains and a good start to the spring sowing campaign lead analysts to predict a grain crop of 75 million tons in 2021.

Irrigation

Ukraine produced roughly 75 million tons of grain in 2019, but the production went down to 65 million in 2020 due to droughts at the start of sowing season.

Climate change is a global issue that all countries need to address, but in Ukraine's case, it is also a national economic priority. Due to the poor technical condition of engineering infrastructure, up to 40–50% of water is lost during transportation, which hurts the country's agriculture.

That's why the Agriculture Ministry has launched the so-called Irrigation and Drainage Strategy until 2030 alongside the land reform to encourage farmers to invest in irrigation and drainage.

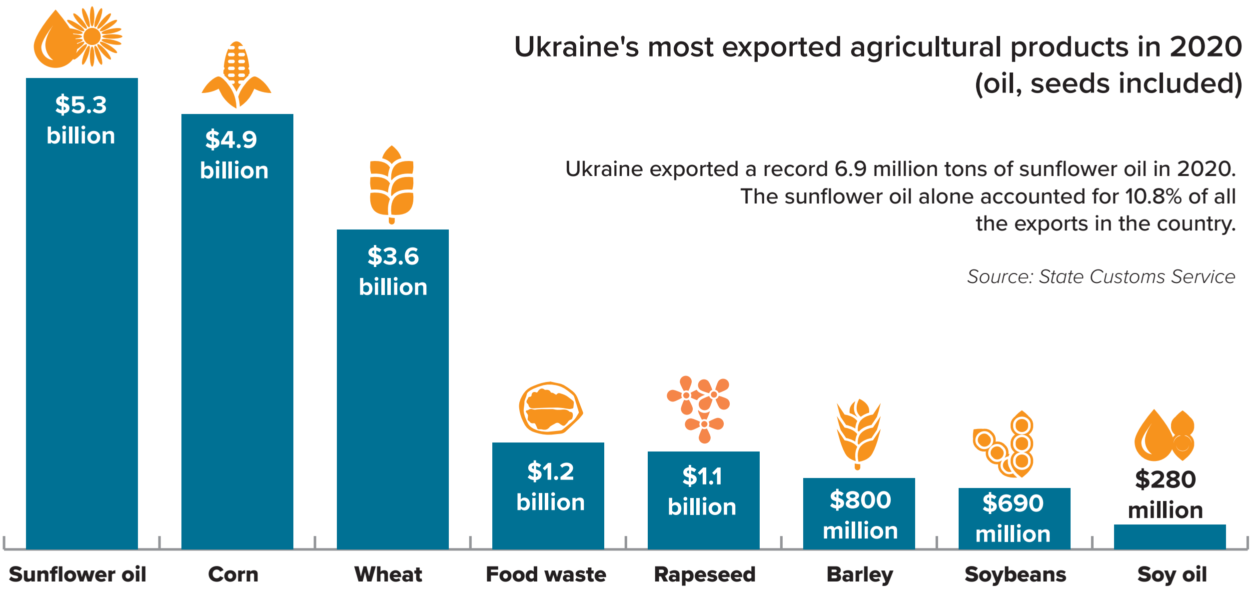
The strategy addresses modernization of systems that currently serve nearly 150,000 hectares of land. Bringing the irrigation system up-to-date will cost approximately $200 million.

However, Ukrainian farmers should own their land first to invest in irrigation, Leshchenko said. It means the strategy will likely be converted into actions only after the land reform kicks off.

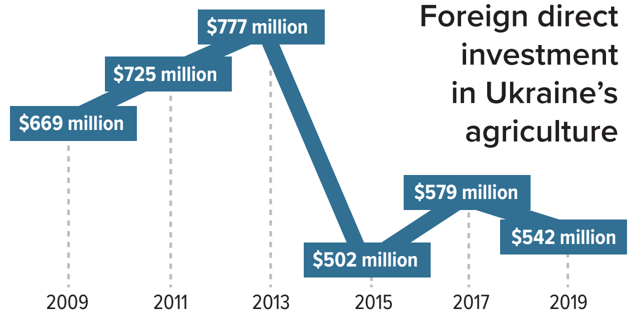
"Nobody wants to irrigate something they don't possess," the minister said.

UNIAN

Ukrainian farmers are reluctant to invest in irrigation because the land they use doesn't belong to them. If farmers are able to own land plots, they may change their attitude, which would help the sector reap rich harvests even if the weather is dry.



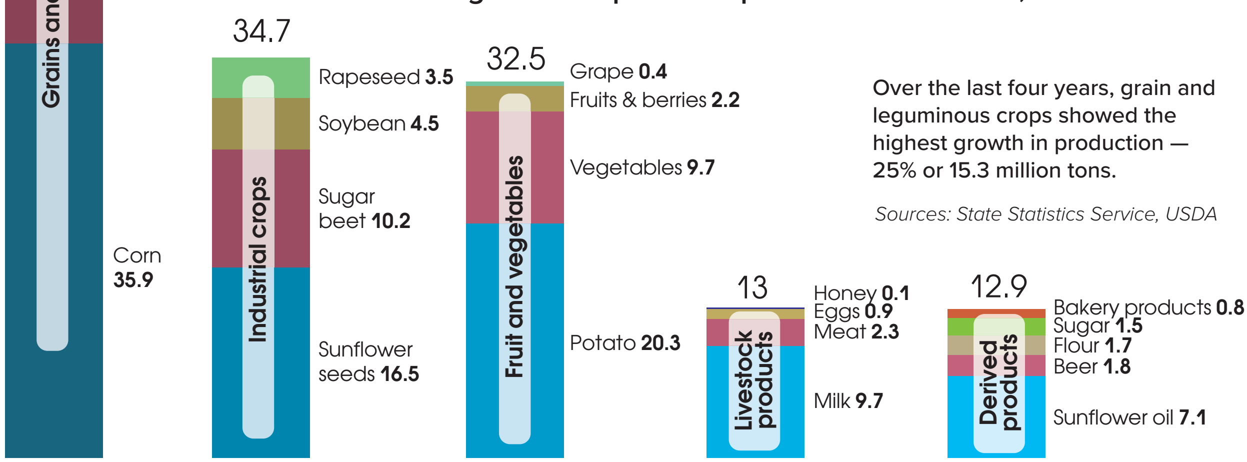
Foreign direct investment in Ukraine's agriculture



Source: State Statistics Service

Foreign direct investment in Ukraine's agriculture has significantly decreased since 2014.

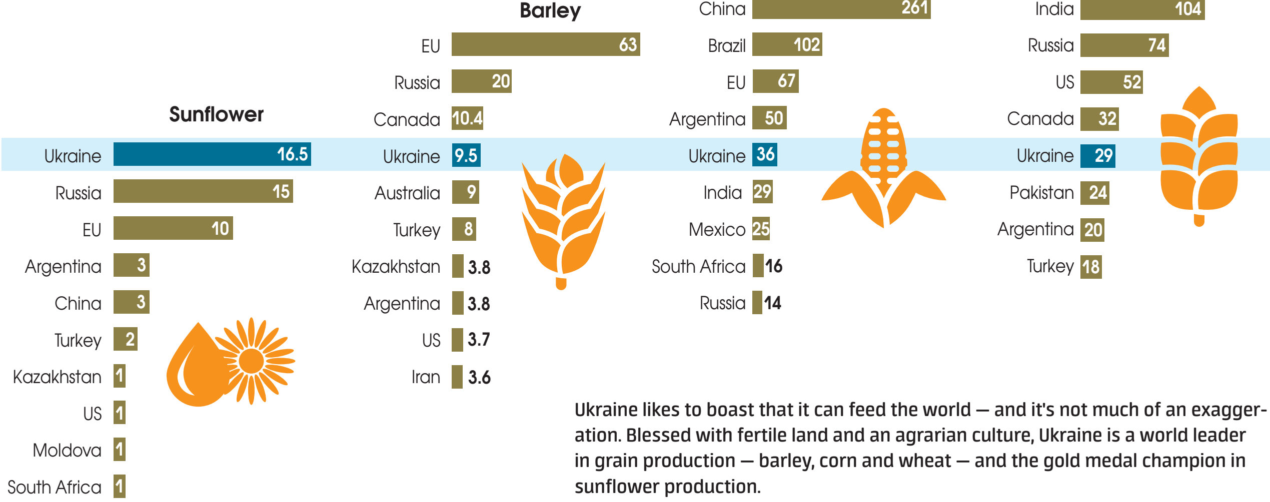
Main agricultural products produced in Ukraine, millions of tons



Over the last four years, grain and leguminous crops showed the highest growth in production — 25% or 15.3 million tons.

Sources: State Statistics Service, USDA

Production of agricultural products in Ukraine and globally, in millions of tons



Ukraine likes to boast that it can feed the world — and it's not much of an exaggeration. Blessed with fertile land and an agrarian culture, Ukraine is a world leader in grain production — barley, corn and wheat — and the gold medal champion in sunflower production.

Local wine isn't 'sweet, cheap & heady' anymore, but foreign is still more popular

Volodymyr Petrov

A bartender pours wine in Kyiv bar Like a Local's on May 25, 2021. Like a Local's serves only local wine. Many winemakers produce high-quality wine in Ukraine, but locals usually choose imported brands: they cost less and have a better reputation.

By Daryna Antoniuk antoniuk@kyivpost.com

When Ukrainian tech entrepreneur Eugene Shneyderis made his first bottle of wine, he didn't think he would one day be a wine producer.

In 10 years, Shneyderis's Beykush winery has become a reputable brand that produces nearly 30,000 bottles of wine annually.

Paving its way from rural vineyards near southern city Mykolaiv to wine stores and restaurants in bigger cities wasn't easy for a small firm like Beykush. For reference, Mykolaiv is located 480 kilometers south of the capital, Kyiv.

For years, local winemakers suffered from Ukraine's extensive bureaucracy and lack of state support. Local customers didn't believe that Ukraine could produce good wine and preferred popular European brands that are usually cheaper.

It discouraged Ukrainian entrepreneurs from investing in the wine business. As a result, only 130 local enterprises have a license to produce wine compared to over 46,000 in Italy.

But those who decided to take a risk, try to stay optimistic about the future of the industry.

"Ukraine is perfectly adapted to make very good wine," said Christophe Lacarin, a French winemaker who owns vineyards near Odesa, the Black Sea port city of 1 million people located 500 kilometers south of Kyiv.

Ukraine's southern regions have a favorable climate to grow grapes, while many local winemakers can turn the harvest into a high-quality beverage.

To support them, the government has to adapt laws to the needs of the small business, while Ukrainians need to be patriotic and start buying more locally produced wine, Lacarin said.

Unfair competition

When Ukrainians choose a wine for a date or a party, they would rather buy a bottle of Pinot Grigio from Burgundy than Sukholimanske from Odesa.

There is a stereotype, especially among the older generation, that "everything imported is better than local," said Anna Gorkun, CEO of Inkerman winery and founder of 46 Parallel Wine Group.

Ukrainian wine stores are packed with European imports. On its website, wine store OK Wine sells 524 bottles of Italian wine and only 57 bottles of wine produced in Ukraine; online store Good Wine has 3,119 bottles of French wine and only 75 bottles of Ukrainian.

The share of Ukrainian wine in big supermarket chain is decreasing too. In 2020, only 27% of wine in the Auchan chain of stores was Ukrainian and 26% — in Retail Group, which includes popular supermarkets Velyka Kishenya and Velmart. Compared to 2017, it's a 6–10% drop.

In 2020, the Ukrainian wine market suffered from COVID-19 and the record low grape harvest, according to Alexander Sokolov, CEO at analytical company Pro-Consulting. It was followed by a 20% increase in wine imports from Europe that hurt the industry even more, according to Sokolov.

The import went up last year because the Ukrainian government lifted import duties on wine from the European Union following the obligations the country undertook when it signed the association agreement with the EU in 2014. Ukraine imported $85 million worth of EU wine in 2016; in 2020, the figure soared to $180 million.

For foreign producers, supported with tax reliefs and state investment, Ukraine is a profitable market. It is easy to cross the country's borders due to the zero import duty and the lack of strict control over the quality of the imported wine, said Volodymyr Kucherenko, head of Ukrvinprom, an organization that supports and protects the interests of winegrowers and winemakers in Ukraine.

And while domestic wine can compete with European in quality, it cannot outcompete it in price, Sokolov said.

Foreign producers, boosted by the government's support, can sell a bottle of good wine for $3 even when its cost of production is higher. Ukrainian producers sell their wine for $5–7 for a bottle on average.

Locals set higher prices for the same quality because they do not receive as much financial support from the state as European winemakers do, according to Lacarin.

The government should protect local producers, limiting the access of imported products to the county, according to Kucherenko.

"If there's more Ukrainian wine on the shelves than imported wine, there is a chance that the situation will change," Gorkun said.

Bureaucratic burdens

In the past, one needed to submit 140 documents to register a winery, a tedious and costly process that put small producers at a disadvantage.

Through the grueling process of registration, the government wanted to control the wine market and protect it from illegal producers. Such bureaucracy, however, only opened a door to corruption; law enforcers could pay a visit to a winemaker for the smallest mistake.

"One unnecessary step, one wrong letter on the excise stamp and you can be prosecuted," Shneyderis said.

In 2015, local authorities accused Shneyderis of producing illegal wine and seized his equipment. After the incident attracted public attention, the tax service closed the investigation.

Lacarin spent nearly 10 years trying to get a license to sell wine in Ukraine. Following numerous requests, in 2018 Ukraine's parliament simplified the process of registering a small or medium-sized winery — one that produces up to 100,000 liters of wine using grapes, berries, or honey it grows or produces itself.

It was a boon for small winemakers, Lacarin said. But now local businesses have to deal with another bureaucratic challenge — excise stamps, labels that prove that taxes were paid.

Developed European countries do not have excise stamps.

"In the rest of the world, wine is an alcoholic beverage made from fermented grapes. In Ukraine, it is the product for which you can be prosecuted," Shneyderis said.

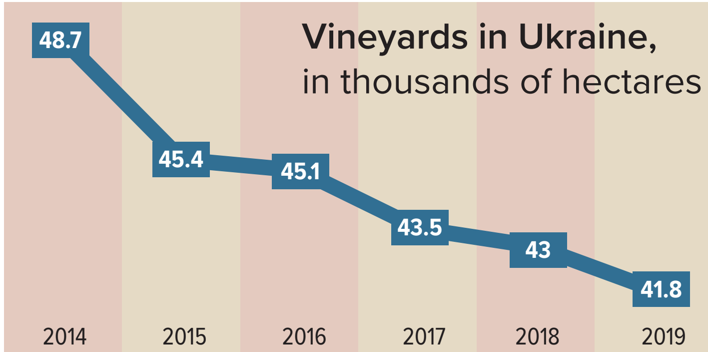
The excise tax is laughable: $0.0004 per liter and also separately $0.007 for a stamp. Economically, it doesn't make much sense. In 2019, the state spent over $800,000 to manufacture the stamps but got only $72,000 from the excise tax.

But if winemakers make a mistake in the documents, they may face a huge fine.

"Wine is food. There is no logic in imposing an excise tax on food," Gorkun said.

Annexed market

Rather than focusing on bureaucracy, experts said that the government should help local businesses to ramp up the production of wine that decreased

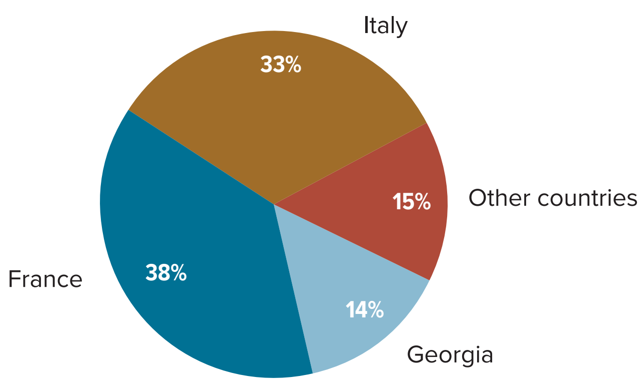


Sources: State Statistics Service, Ukrvinprom

The number of vineyards in Ukraine keeps decreasing. It has dropped from 49,000 to 42,000 hectares over the last six years. Ukraine lost a whopping 26,400 hectares of vineyards after Russia annexed Crimea.

Ukraine imported $179 million worth of wine in 2020 from Italy, France, Georgia and other European countries. In 2014, it imported just $85 million.

Wine import to Ukraine, by country



Source: State Statistics Service, Pro-Consulting dramatically after Russia's 2014 invasion of Crimea, the major wine growing and producing region in Ukraine.

According to Ukrvinprom, Ukraine lost 26,400 hectares of vineyards after Russia annexed the peninsula.

Apart from the grape supply, Ukraine also lost control over its finest vintage wineries, including Massandra, Novy Svit, Inkerman, Koktebel.

In January, Russia sold Crimea's Koktebel for $1.4 million. In 2020, it sold Massandra for over $2 million to the subsidiary of Russia's bank controlled by one of Russian President Vladimir Putin's allies, Yuri Kovalchuk.

Gorkun's Inkerman had to abandon three plants, cellars and 3,500 hectares of vineyards when the Kremlin invaded Crimea. At that time, Inkerman was the best on the local market and planned to expand abroad, and even start initial public offering. But the plans were canceled.

"Our main goal was to save the customer and the image of the brand," Gorkun said.

To continue doing business in Ukraine, Inkerman registered a new company in Kyiv that now works independently from the Crimean firm.

Inkerman lost a substantial share of its market because it could neither import grapes from Crimea nor sell its wine there. The company still controls nearly 8% of the market, producing nearly 4 million bottles of wine a year.

In the Soviet Union, when people wanted to buy wine, they were looking for something sweet and cheap. The new generation of Ukrainians is building a different drinking culture, which is more similar to the European one. They prefer dry wine to sweet or semi-sweet.

Ukraine's Inkerman doesn't own any vineyards in Ukraine. Instead, it buys grapes from local farmers.

"There is no need to invest in our own vineyards," Gorkun said. "We prefer to give the opportunity to develop and maintain production to those winegrowers who have already invested."

Drinking culture

Last year Gorkun embarked on another venture — she launched a new brand of wine called 46 Parallel. It targets the younger generation.

"We believe that millennials and people born in the 2000s will be more tolerant to Ukrainian products," she said.

Unlike their parents, born in the Soviet Union when the most popular wine was "sweet, cheap and heady," millennials try to build a wine-drinking culture that would be more similar to the European one. They prefer dry wine to sweet or semi-sweet.

The consumption of wine still remains small: One Ukrainian consumes 3.5 liters of wine a year compared to 62 liters in Portugal, 50 liters in France or 44 liters in Italy.

These countries have a centuries-long wine history, while Ukraine started to make good wine only 10–15 years ago, according to local sommelier Anna Eugenia Yanchenko. "Ukrainian wine needs more time to reveal and demonstrate its charms," she said.

According to Yanchenko, Ukraine can already be proud of two local grape varieties — Odesa's Black and Telti Kuruk.

"These varieties are the future of Ukrainian winemaking or at least the beginning," she added.

Another thing that will push Ukrainian winemaking forward is the rise of small businesses, Lacarin said. Compared to big producers that target the average Ukrainian who buys wine in the supermarket, small businesses make more expensive, high-quality wine.

Small producers can take more risks too, experimenting with production techniques, growing grapes without pesticides. For a big winemaker, one mistake can cost dozens of hectares, Shneyderis said.

"It wasn't supermarkets that made the French wine industry glorious, but small boutiques that produced expensive and classy wine," he said.

Grain exports help revive rivers; new law may pollute Dnipro

By Natalia Datskevych datskevych@kyivpost.com

Nature gave Ukraine's economy the Dnipro River — the fourth-longest river in Europe that big businesses can use to transport cargo to the ports of the Black Sea.

The problem: only two industries are using the river for this purpose, agriculture and metallurgy.

The share of rivers in the country's cargo transportation last year reached a modest 1%. Vessels with barges — mainly driven by the needs of grain exporters and metallurgists — carried 15.8 million tons of cargo.

Although the figure was one of the highest since 2016, when ships with barges transported a record low 3.6 million tons, it's still far from 60 million tons that Ukraine shipped in the early 1990s.

To make the use of the river great again, the government has passed a law on inland waterways that will enter into force in 2022. Industry experts, however, are sure the law can harm the economy, destroy shipbuilding and cause a national environmental disaster unless it's amended.

"The Dnipro River will turn into a swamp," Nikolai Gorbachev, head of the Ukrainian Grain Association, told the Kyiv Post. The possibility scares Gorbachev, because two-thirds of the nation's population drinks water pumped from it.

"It will create an ecological catastrophe which will affect everybody," said Gorbachev.

Transport for agriculture

Using rivers instead of roads and railways may kill two birds with one stone — decrease carbon emissions and cut logistics costs for agricultural businesses.

Just one 4,000-ton barge sailing quietly down the river can carry a load equal to 57 train cars or 200 trucks. Every 1 million tons of cargo transported by river saves around $36 million for the state budget on road repairs, according to former infrastructure Minister Vladyslav Kryklii.

"The barge solves several issues at once," said Gorbachev. And European countries like Germany, France and the Netherlands recognize that: they are actively building additional water channels on their territory.

Grain is the main export of Ukraine. Last year, nearly 7% of all of Ukraine's grain (55 million tons) was transported via inland waterways to seaports, from where 98% of all grain exports leave the country.

The biggest proponent of the river use, agricultural firm Nibulon, carried 2.5 million tons of agriculture products by rivers, or over 60% from the total.

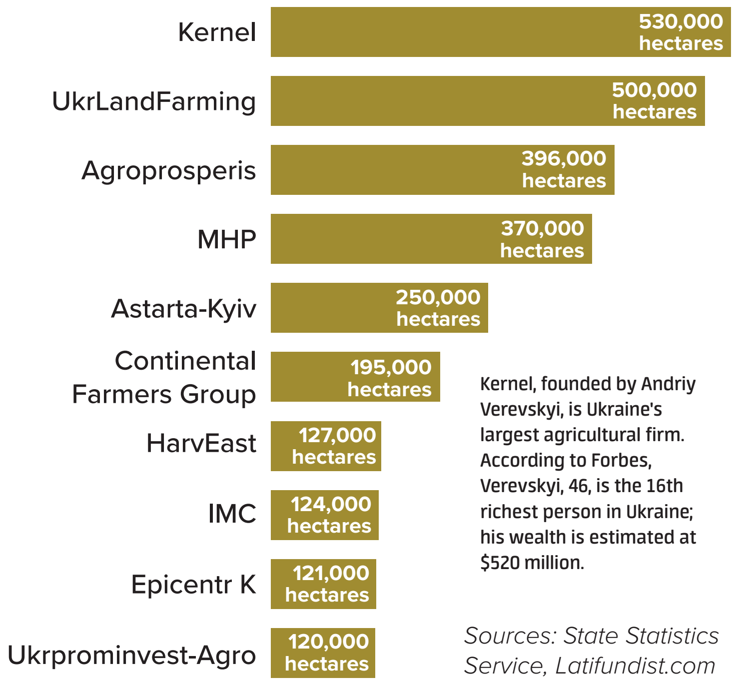
"It is the best indicator in the entire history of the company's water transportation," the company reported.

In the past decade, Nibulon carried 21 million tons of various goods by rivers, which saved the roads from 880,000 loaded trucks.

UNIAN

Grain is the main export of Ukraine — 98% of it leaves the country through seaports.

Agricultural firms by amount of farmland



Kernel, founded by Andriy Verevskyi, is Ukraine's largest agricultural firm. According to Forbes, Verevskyi, 46, is the 16th richest person in Ukraine; his wealth is estimated at $520 million.

Sources: State Statistics Service, Latifundist.com

To encourage businesses to use Ukraine's rivers for transporting goods, the government has passed a law on inland waterways. It will enter into force in 2022. Experts, however, are sure the law in its current form can harm the economy, destroy shipbuilding and cause a national environmental disaster.

Rivers are still the cheapest option for transportation. Grain traders pay half that they would for using railways — $15–18 versus $20–25 per ton.

However, it's forecast that the price for river transportation will rise in three-five years as Ukraine will get bigger harvests, spinning the demand. And it's not clear if the Ukrainian infrastructure can satisfy a bigger demand, anyway.

"To create a river infrastructure the state will have to invest much more in it than in railways," said Gorbachev.

Danger ahead

The bill on inland waterways has been discussed in the government for years. The parliament passed it in the second reading in December 2020.

Former Infrastructure Minister Kryklii said the lawmakers "took into account the suggestions by the business community and they jointly finalized this bill," aiming to revive river logistics.

But when the law passed, business was shocked. Many perceived it as betrayal of national interests.

"I regret the energy spent on defending the interests of the industries. I regret the time spent talking with officials," said Oleksiy Vadatursky, CEO of Nibulon, in his interview to Ports.ua. His company employs 7,000 people, pays $54 million in salaries and $36 million in taxes every year.

Among the most controversial issues — free access to Ukraine's rivers for all foreign vessels (except Russian); they will be exempt from most of the taxes, paying only port dues.

To compete with them in prices, Ukrainian producers will have to save on something else. Experts forecast that Ukrainian fleet will "go into shadows," evading fuel excise tax ($3 per ton) and paying salaries under the table.

According to Nibulon's calculation, because of the law, for every 10 million tons of cargo transported by river, the Ukrainian budget will be losing $22 million a year.

"This is like a tree that has begun to grow. No one notices it at first. But once it's grown, everybody realizes that someone has already cut its branches," said Andriy Muravskiy, an expert at analytical agency Food and Agri.

Ship owners will simply re-registered ships in Moldova, Romania, Malta or other countries, experts believe.

Once registered, for example, under the "more convenient" Moldovan flag, they will have fewer requirements for ships' inspection, their technical conditions and exemption from taxes, Muravskiy said.

According to Oleksander Grygorenko, co-owner of the river shipment company Grain-Transhipment, the new law makes it unprofitable to work under the Ukrainian flag.

The expenditure records on wages and fuel — all of it will take place outside of the Ukrainian legislation, Grygorenko told analytical center GMK.

Volodymyr Petrov

A cargo ship moves downriver in Kyiv. Using rivers instead of roads and railways may kill two birds with one stone — decrease carbon emissions and cut logistics costs for agricultural businesses.

His company already paused the construction of two massive 5,000-ton barges on Ukraine's shipyards. He is not ready to risk, making an investment with an eight-year payback period until it will be clear how the law works, said Grygorenko.

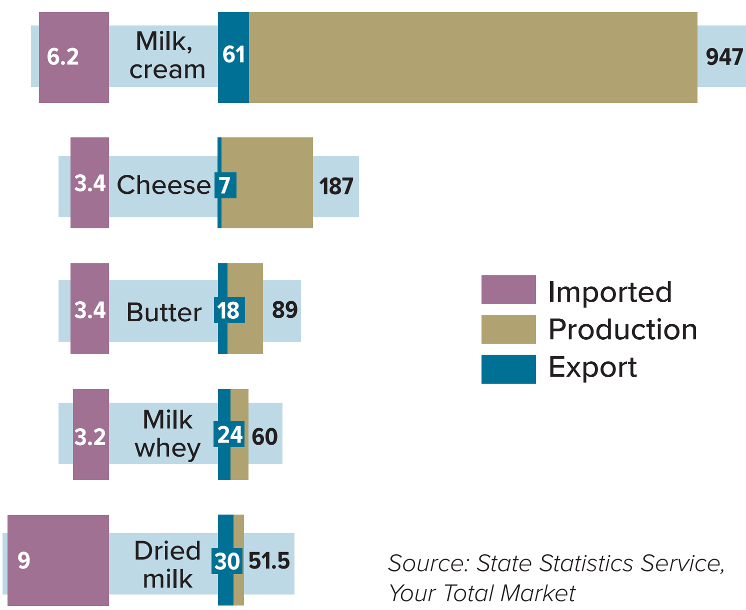
Although not in force yet, the new law has already affected the slowdown of Ukraine's banking activity in this area, which only recently became lending to firms to build, barges. One 6,000-ton barge costs $3 million.

If Ukrainian ship owners re-register their fleet abroad, they will try to access money in European banks where there are "better leasing conditions," said Muravskiy. Ukrainian banks will lose clients, he's sure.

Moreover, with the new law, ships under foreign flags will be allowed to pump out ballast water into Ukrainian rivers, introducing microorganisms or other invasive species that can harm the ecosystem and the health of Ukraine's population.

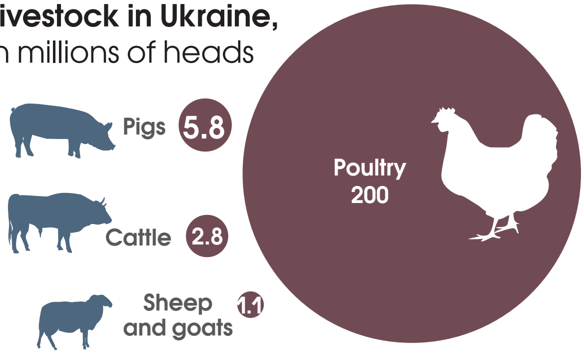
"It's against our country's move towards European environmental and safety standards," said Gorbachev. "Imagine there are several barges standing near the river locks for several days and dumping everything into the river, including the waste products of the crew." ■

Dairy industry in Ukraine, in thousands of tons



Source: State Statistics Service, Your Total Market

Livestock in Ukraine, in millions of heads

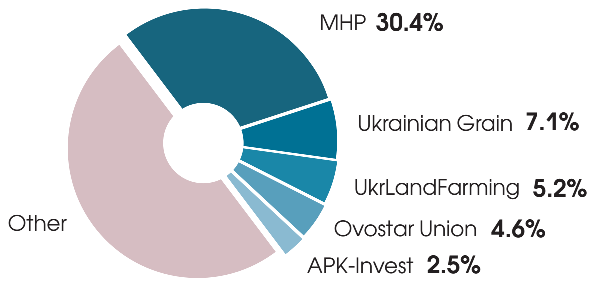


Source: State Statistics Service

Exports of poultry from Ukraine increased by 4% to 431,000 tons in 2020. In monetary terms, they decreased by 4.1%, to $555 million, according to the State Customs Service.

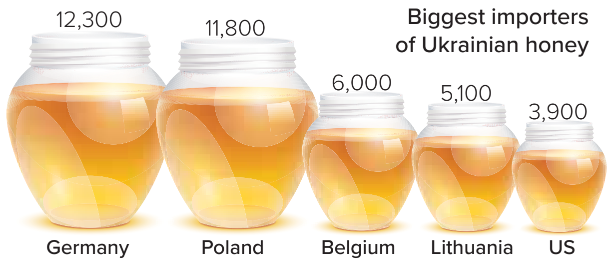
Honey production and export in Ukraine, tons

Top 5 producers of feed for livestock by market share



Source: State Statistics Service

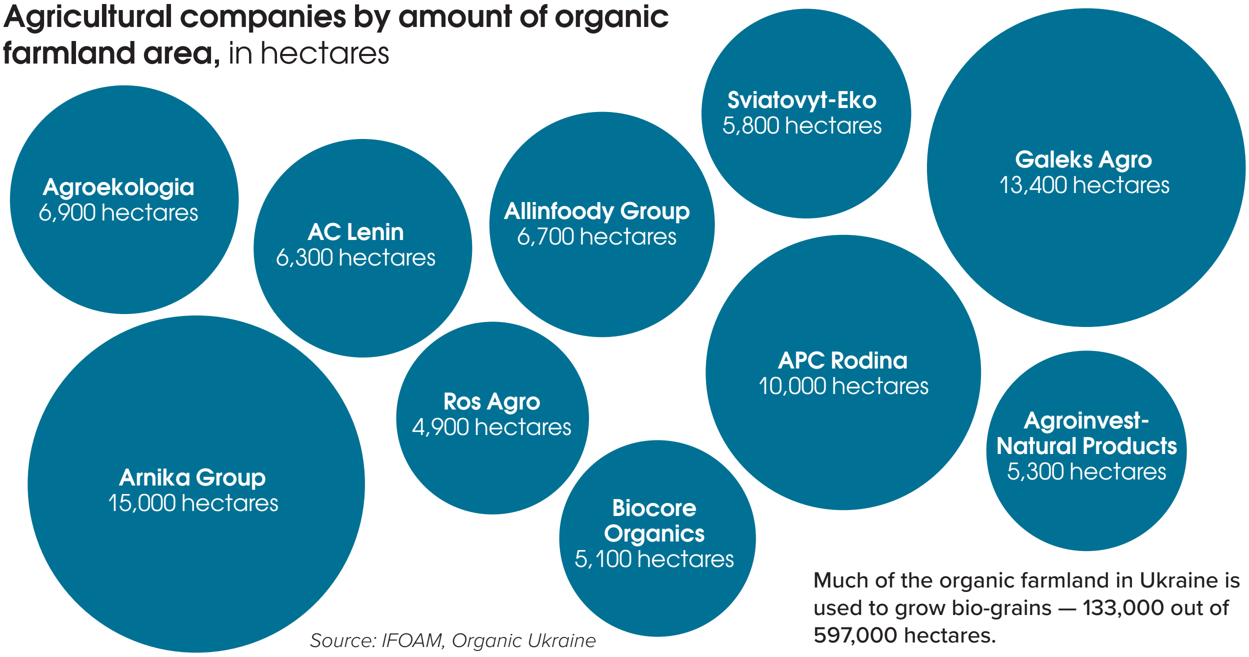
MHP is by far Ukraine's largest producer of livestock feed. It is owned by Yuriy Kosiuk one of Ukraine's 10 richest people, according to Forbes. His wealth is estimated at $780 million.



Source: State Statistics Service

Ukraine is one of the leading exporters of honey to the European Union. In January-November 2020, the country exported 69,800 tons of honey worth $117.5 million.

Agricultural companies by amount of organic farmland area, in hectares



Source: IFOAM, Organic Ukraine

Much of the organic farmland in Ukraine is used to grow bio-grains — 133,000 out of 597,000 hectares.

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BANKING

Volodymyr Petrov

The main building of the National Bank of Ukraine in Kyiv. The NBU aims to clean up non-performing loans and reach a 20% ratio nationwide by 2025. The most immediate challenge is to mitigate the effect of the COVID-19 crisis.

Banking sector recovers from crisis, faces inflation threat

By Alexander Query query@kyivpost.com

Ukraine's banking sector has not withered under the strain of the economic crisis.

Reports from the National Bank of Ukraine showed that the banks collectively reported a net profit of $1.5 billion in 2020, and almost $400 million in the first quarter of 2021. Today 66 banks (out of 73) generate profit.

The profits are 30% lower year over year, but it is still a good result given the crisis, Konstantin Fastovets, economic expert for investment company Adamant Capital, told the Kyiv Post.

"2020 was actually not a bad year for banking," he concluded.


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Kostyantyn Chernichkin

Despite a turbulent 2020, Ukrainian banks had enough liquidity to resist the stress tests conducted by the National Bank of Ukraine.

Turbulent year

Banks' profit dropped mostly due to non-performing loans in state-owned banks. At the beginning of 2021, 41% of the loans were non-performing.

The NBU's goal is to clean up non-performing loans and reach a 20% nationwide ratio by 2025. The most immediate challenge, however, is to mitigate the delayed effect of the COVID-19 crisis.

The NBU will especially focus on the effects of the recurrent lockdowns on the Ukrainian economy, the central bank's governor Kyrylo Shevchenko has recently said in an interview to news website Global Capital.

Because of the crisis, the country faced growing inflation. As it jumped to 8.5% in March, the NBU was forced to raise the key policy rate from 6.5% to 7.5% in a bid to slow down the rise in prices.

Shevchenko said that the central bank will now face two potential directions for its monetary policy: If the inflation continues to rise, it will use "tightening tools," meaning increasing the interest rate to slow down the prices; if inflation stops, the interest rate may go down.

The increase in the cost of loans provided by the NBU to commercial banks affects the rate at which

Top 15 banks in Ukraine by financial strength & customer loyalty

1. **Raiffeisen Bank Aval** (private, Austria)
2. **Credit Agricole Bank** (private, France)
3. **OTP Bank** (private, Hungary)
4. **Ukrsibbank** (private, France)
5. **KredoBank** (private, Poland)
6. **PrivatBank** (state-owned, Ukraine)
7. **ProCredit Bank** (private, Germany)
8. **Alfa-Bank** (private, Russia)
9. **First Ukrainian International Bank** (private, Ukraine)
10. **Oschadbank** (state-owned, Ukraine)
11. **Pravex Bank** (private, Ukraine)
12. **UkrGasBank** (private, Ukraine)
13. **Ukreximbank** (state-owned, Ukraine)
14. **Universal Bank** (private, Ukraine)
15. **Idea Bank** (private, Poland)

Source: Minfin

the banks give loans to their debtors. The higher the rates, the fewer people seek loans, which can slow down consumption in the country.

Shevchenko also said that credit risks would be an issue for the banking sector in 2021. “Some bank borrowers are still experiencing financial difficulties,” he said. This may affect the quality of loan servicing, forcing banks to make additional provisions.

The NBU also plans to put in place stress tests to check on the bank’s resilience to get a better sense of the risks facing the banking sector in 2021.

Selling state banks

The NBU plans to reduce the state’s share in the banking market from 55% to 25% over the next five years. Right now, the four largest banks are state-owned: PrivatBank, OschadBank, Ukreximbank and Ukrgasbank.

In the ranking of the most reliable banks in Ukraine, according to financial analyst Minfin, the state banks aren’t in the lead. The top three banks are the ones with foreign capital: Raiffeisen Bank Aval from Austria, Credit Agricole Bank from France and OTP Bank from Hungary.

The NBU has recently said it wanted to sell PrivatBank, Ukraine’s largest bank, to international investors, such as those from the United States and the European Union. The announcement raised many eyebrows: PrivatBank, which holds 20% of the Ukrainian banking market, has a troubled history.

PrivatBank was nationalized in 2016 when it was found to have a $5.5 billion hole in its ledger. The money was allegedly siphoned by its former owners Ihor Kolomoisky and Gennadiy Bogolyubov. They deny any wrongdoing.

Taxpayers paid to get the bank back on its feet.

Now state-owned, PrivatBank has been engulfed in endless trials against Kolomoisky since 2016. Overall, there have been around 500 lawsuits against PrivatBank since it was nationalized; over 100 are still active, which makes it an even tougher sell. ■

Yelyzaveta Serhiienko/ Press office NBU

Ukraine’s parliament appointed Kyrylo Shevchenko, 48, former head of state-owned Ukrgasbank, as the new governor of the National Bank of Ukraine in July 2020. Shevchenko replaced Yakiv Smolii, who resigned due to political pressure.

Kostyantyn Chernichkin

Four years after PrivatBank was nationalized it makes more money than all other 70 banks in Ukraine combined and counts more than half of the population as its customers. Privatizing the bank would be a milestone for Ukraine's economic development.

PrivatBank's transformation is laying the groundwork for its reprivatization

By Liliane Bivings bivings@kyivpost.com

Experts say that if Ukraine's banking sector is going to thrive, the share of state-owned banks — now roughly half of the sector — will have to shrink.

One way to achieve this is privatization. To do that, PrivatBank, the nation's largest and most scandal-ridden bank, will have to end up in private hands again. It was nationalized in December 2016 and has been showing profits since record bank fraud under billionaire owners Ihor Kolomoisky and Hennady Boholyubov cost taxpayers $5.5 billion.

"Very few markets of Ukraine's size have so much unrealized potential in the banking and financial sector," said Artem Shevalev, a member of PrivatBank's supervisory board. To him, selling PrivatBank is part of the larger arc toward a healthy, growing economy and huge potential for investments in the banking sector. The three other large state-owned banks slated for eventual sale to private investors are Oshchadbank, Ukreximbank and Ukrgazbank.

PrivatBank is on track to go on sale by 2024, according to Anna Samarina, its acting CEO. There are two major approaches. One is through an initial public offering, which would be a major milestone in Ukraine's banking sector, support the local capital market's development, and "put Ukraine's economy firmly on the investment map." The other option is through a strategic buyer.

Before that happens however, the government has to approve its privatization strategy and the bank has to complete a series of transformations that began under state ownership. Since nationalization almost five years ago, the plan has always been to prepare the bank for privatization. In order to sell the bank, the new leadership has to transform its internal corporate culture, while fighting to keep the bank out of the hands of its previous owners and recovering lost and looted money from them.

Taking over

Since its founding in 1992, the bank had seen massive growth, with a customer base that includes roughly half of Ukraine's population, or 20 million people. Its innovative technology in customer services made it wildly popular.

Over the years however, massive amounts of depositor funds flowed out of the bank and into the pockets of the owners and their related companies, known unofficially as "Privat Group."

"To fund your related party lending, you need liquidity. And to get liquidity you create a vacuum on the other side to suck up customer deposits. And to do that efficiently you need to be super friendly, open, innovative, and very nice. That's why the front end was so well designed and well-tuned," says Shevalev.

In 2015, the National Bank of Ukraine could no longer turn a blind eye and performed a stress test on the bank. The team found that the bank had a massive capital shortfall of $5.65 billion and that loans to related companies made up 97% of the corporate profile.

The NBU and Ukrainian government had no choice but to step in and bail out the bank in 2016. It was too big to liquidate like other sham banks.

In the years following nationalization the bank's new leadership undertook the massive task of transforming the personal piggy bank of a few owners and their friends to a professional bank that could eventually be resold. In the meantime, court cases to regain the bank and lost assets during the nationalization have disrupted the process.

Culture clash

In the weeks following nationalization, the new management feared a bank run. But these concerns were short-lived: after a 15% outflow of deposits worth around $1 billion, things returned to normal.

The immediate task of the new management team was to put in place standard banking practices vital for a bank of this size, but nonexistent under the old ownership.

The bank got a new CEO and a chief risk officer. Internal audits, corporate governance checks and balances and risk management systems were implemented.

It wasn't an easy task. For one, the bank's former leadership preferred to run it like a "family office," says Shevalev. After nationalization, many records were destroyed, making it difficult to ascertain how things were done before.

And, according to Samarina, the new leadership team faced fierce internal opposition.

One of PrivatBank's central features was that it grew entirely from the inside; its employees "grew up" in the bank instead of coming from the outside banking world. PrivatBank employees were used to an "aggressive" company culture where employees competed against each other and chased after the leader. When the new team arrived at PrivatBank, Samarina says they were perceived "like Martians."

To transform the company culture, it was necessary to replace members of the team. Without making changes to top-level managers, it was like "fighting windmills," says Samarina.

For her, the turning point was a critical mass of new people and a new company culture. "When a person arrives speaking another language, he's just one Martian, when there are already three, people begin to take note," Samarina said.

Becoming a real bank

By 2018, the bank had its strategy: privatize by 2021–2022, refuse further bailouts from the government, increase the loan portfolio without taking on too much risk, optimize the information technology architecture, strengthen risk management and reduce staff and branches.

The bank no longer had the capacity to do proper corporate lending, which translated into a strategy that tilted heavily towards retail banking. That meant focusing on promoting creativity and new products, while maintaining efficiency and putting customers first.

One of the biggest goals of the new team has been to lend to small and medium sized businesses (SMEs). As the biggest bank in the country, PrivatBank has a lot of liquidity and wants to use that to support the growth of the economy by loaning to SMEs, Shevalev says.

Under the state program "Affordable Loans 5–7–9%," the bank has issued more than 2,500 loans, and is continuing to develop medium-sized business lending. The indicator of non-performing loans (NPL) for the new portfolio is about 6%.

Since nationalization, the bank has attracted 5 million new clients, allowing it to quadruple its income on transactions. The increase in customers

> **Very few markets of Ukraine's size have so much unrealized potential in the banking and financial sector.**
>
> — Artem Shevalev, PrivatBank's board member

Kostyantyn Chernichkin

Yuriy Hudymenko, leader of the Demokratychna Sokyra party, holds a playing card with a portrait of Ihor Kolomoisky, oligarch and former owner of PrivatBank, in protest against Kolomoisky attempts to take back control over the bank in Kyiv on Feb. 8, 2021.

Key financial indicators of Ukraine's economy, 2021

8.5% per annum	Inflation
7.5% per annum	Key policy rate
27.7 hryvnias per dollar	Price of $1
33.2 hryvnias per euro	Price of 1 euro
$27 billion	International reserves

Source: National Bank of Ukraine

In April 2021, the National Bank of Ukraine raised its policy rate from 6.5% to 7.5% to slow down inflation in the country. The policy rate is the rate at which commercial banks can borrow money from their central bank.

also doubled the size of its retail loans. In 2020, PrivatBank was able to invest in government bonds, increasing its portfolio by $2 million, or 39%.

Hitting these milestones was all very well. But Oleksiy Puznyak, an executive at Raiffeisen Bank Aval, told Forbes that the new management's main achievement was showing that PrivatBank can work normally without the previous owners, while fighting an incessant legal war.

The battle over the bank

When it became clear that the former owners had no intention of meeting the goals laid out in the letter they signed when they handed over the bank, PrivatBank's new leadership had no choice but pursue domestic and international litigation.

It was not long after that Kolomoisky decided to go after the bank, filing a lawsuit in 2017 claiming that the nationalization was illegal. A couple of years later in 2019, Boholyubov filed a different challenge to the nationalization. Both cases are still ongoing.

Ukraine's parliament passed the so-called "anti-Kolomoisky" bill last spring, outlawing the return of nationalized banks to their former owners. This law is crucial in preventing the former owners from getting the bank back. However, the law doesn't prevent the former owners from claiming compensation from the state, provided that the court unconditionally recognizes any part of the nationalization illegal.

But that law's constitutionality is being challenged in Ukraine's constitutional court which puts the fate of the law under a question mark, according to Svetlana Cherpurna, head of the legal department at PrivatBank. These challenges also delay many other court cases related to the appeal of the nationalization as some courts have suspended appeals while the battle rages over the law's constitutionality.

Cases related to nationalization have ballooned to over 500 since 2017. Creditors who were considered related to the bank during the bail-in process are also pressing charges.

The most notable of these cases involved Ihor and Hryhoriy Surkis, Ukrainian oligarchs and ex-business partners of Ihor Kolomoisky. The two brothers filed a lawsuit against the bank to reclaim $350 million included in the bail in. After a lower court ordered the bank to pay it back, Ukraine's Supreme court blocked the decision.

The battle is happening within the bank's ranks as well. PrivatBank's labor union, headed by Maxim Shevchenko, has filed a lawsuit declaring the closed competition for PrivatBank's head illegal.

According to Ukrainian law, banks do not have to hold an open tender to choose a head. In the meantime, the lawsuit has blocked the supervisory board from electing a new leader after the former chairman of the management board, Petr Krumphanzl, ended his term in January.

While there is no available proof that the labor union is working for anyone, its "motives coincide with the motives of those people who want to destabilize the bank's work," said Yuriy Sak, a PrivatBank spokesman.

Samarina says however, that even in the absence of a chairman, the bank is running smoothly, able to fulfill all of its responsibilities and move towards privatization.

It's difficult to speculate who would be interested in buying the bank in 2024.

What PrivatBank can say is that the investor should be someone who can bring something useful to the country. "This can't be some kind of captive transaction, or some kind of window dressing. The task is to find a quality investor who will meet the target," said Samarina.

Lacking PayPal, freelancers turn to popular Payoneer payment service

By Asami Terajima terajima@kyivpost.com

Online payment systems like PayPal have been game-changers for freelancers. They have opened a new world of global business opportunities, making it easier to work with foreign clients from any part of the world, including Ukraine.

The world's most popular service, PayPal, however, only partly works in Ukraine: it lets you send money abroad – not receive it. And as the niche was open, many look-alike services popped up such as Wise, MoneyGram and Payoneer.

Payoneer is the most popular among Ukrainian freelancers – about 30% of them use the American service, according to experts. These are mostly tech specialists, who typically work with foreign clients and need to get transfers fast and cheap.

Payoneer processed more than $44 billion in payments last year. In 2021, it plans to generate $430 million in revenue from its service. The company is profitable, but it doesn't disclose its results.

Igor Kovaliov, Payoneer's general manager in Ukraine and Belarus, believes that Ukrainian tech freelancers are conquering the world and that Payoneer is here to "empower" them to do it.

"We help Ukrainian entrepreneurs create more jobs and contribute to the booming digital economy," Kovaliov told the Kyiv Post.

In PayPal's absence

When GlobalMoney launched Ukraine's first-ever online service to transfer money without having

Popular U.S. payment system PayPal only partly works in Ukraine (people can receive but not send money), which leaves a vacant niche for similar services like Payoneer, Wise and MoneyGram.

International payment systems used by Ukrainian banks

	Payoneer ↑	Payoneer ↓	Wise ↑	Wise ↓	Western Union ↑	Western Union ↓	SWIFT ↑	SWIFT ↓	MoneyGram ↑	MoneyGram ↓	Ria ↑	Ria ↓
Monobank		✓			✓	✓	✓	✓		✓		✓
Privatbank		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Credit Agricole							✓	✓				
Alfa Bank	✓	✓			✓	✓	✓	✓				
First Ukrainian International Bank					✓	✓	✓	✓	✓	✓	✓	✓
Sberbank					✓	✓	✓	✓	✓	✓		
Oschadbank					✓	✓	✓	✓	✓	✓		
Raiffeisen Bank Aval					✓	✓	✓	✓				
Ukrsibbank BNP Paribas Group							✓	✓				

Source: Kyiv Post

Kostyantyn Chernichkin

Payoneer is the most popular payment service among Ukrainian freelancers — about 30% of them use it, according to estimates.

to open a bank account in 2013, freelancers were among the first to use the service, according to the company's commercial director Alexandr Turkevich.

Since then, the online payment market in Ukraine has been "actively developing," Turkevich said. The prospects for future growth are even brighter. But while a variety of services exist to transfer money domestically, including GlobalMoney, international payment services "aren't very developed," he added.

Many anticipated PayPal to come, but the company has never rolled its service out in Ukraine.

Ilia Kenigshtein, the founder of the coworking chain Creative States and initiator of the movement to bring PayPal to Ukraine, said the National Bank's restrictions and oligarchs block PayPal's arrival.

"The Iron Curtain that we installed for ourselves," Kenigshtein describes the situation.

Ukraine is not a priority for PayPal but Xoom, a PayPal's subsidiary that allows users to send money directly to banks and cash pick-up locations abroad, entered the Ukrainian market in 2018.

The San Francisco-based company's service here is limited. According to Kenigstein, Xoom users can only withdraw payments from the United States at cash pick-up locations, which includes banks like Oschadbank, PrivatBank and UkrGasBank.

Ukraine is by far not the only country where PayPal's full service doesn't exist. Other post-Soviet countries like Azerbaijan, Armenia and Belarus fall under the same pattern. PayPal also bailed out of Russia last year and only offers cross-border payments there.

The rise of a new era

Luckily for local freelancers who sell their services abroad, there are other options. As the demand appeared, online services have popped up to satisfy the needs. One of them was the American financial services company Payoneer.

Payoneer provides a virtual bank account to accept and send money worldwide. It has partnered with thousands of digital marketplaces, including

Upwork, a website that matches clients and freelancers.

After freelancers complete a job through the Upwork website, they receive payment on their Upwork accounts. Then, they transfer it to their Payoneer account.

Though the commission to withdraw money from different online platforms or networks may vary, the transfer process from Upwork to Payoneer costs $1 no matter the sum, typically taking two days. But there is also an instant option available for $2.5.

Once the money is in the Payoneer account, users can send the money to their local bank accounts for a 2% commission.

Payoneer offers multiple ways to get paid online but it's only meant to be used for sending or receiving business payments.

Rising competitors

Wise, formerly known as TransferWise, also offers a business account for transferring money abroad.

Wise users can make international payments without money ever leaving the country of the currency.

First, they transfer the amount from their local bank account to the Wise account. Once the money is deposited, Wise will exchange the currency at the average market rate and provide the equivalent amount from its account where the recipient is located to complete the payment transfer.

The London-based financial technology company has accounts in many countries and in over 50 currencies to avoid high bank exchange fees for their customers.

If the transfer amount doesn't exceed $140,000 to a recipient in Ukraine, the commission takes a small fixed fee of $0.25 and 2.23% of the transfer. The conversion calculator available on the site will count up the exact cost of the money transfer to the designated currency.

Moneygram is also a popular choice when making international payments. The American money transfer company bases fees on the amount for the transfer and which payment method is used. There are two ways to send money to Ukraine — cash pickup at any MoneyGram agent location or directly paying to the recipient's bank account.

If a sender was to transfer $1,000 to a recipient in Ukraine, the fee is $14.99 (about 1.5%) for cash pickup and $12.99 (about 1.3%) to a bank account.

Global virtual accounts

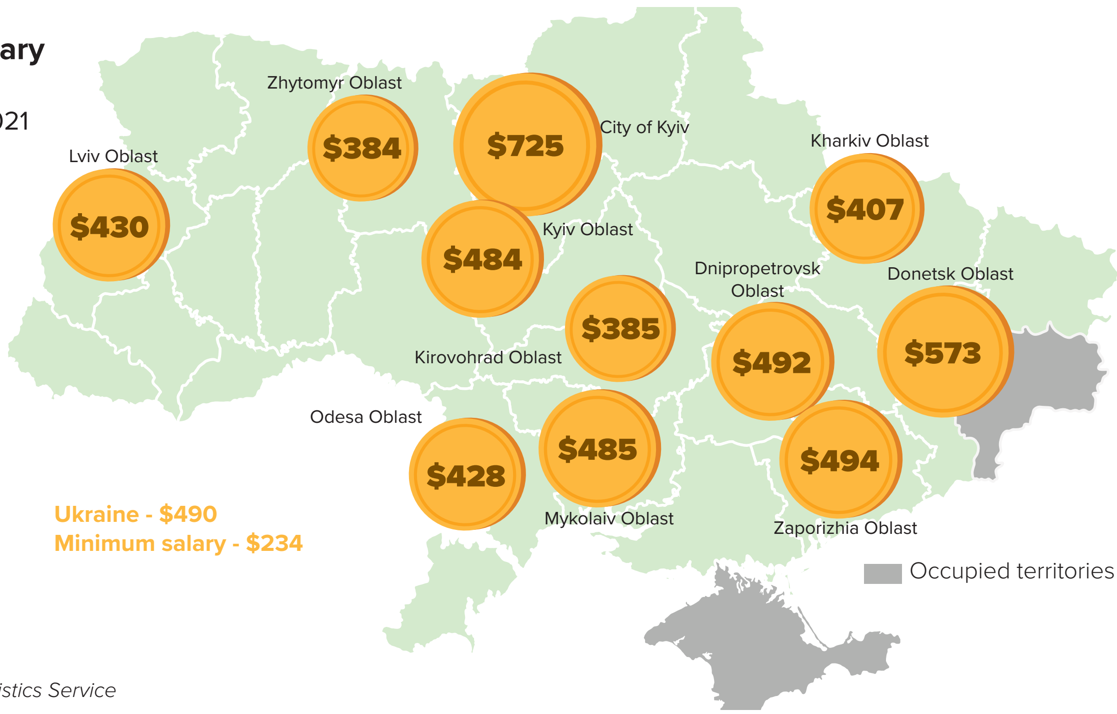
While there are many other options out there, freelancers said they like to use Payoneer because it is convenient to have all the payments in one place.

Payoneer account holders can also register for the Global Payment Service that allows them to have local receiving account details in different currencies, which they can share with clients when requesting a payment.

The receiving accounts in certain currencies work as if the users had real local bank accounts, enabling them to get payments from clients and marketplaces through local bank transfers. The money transferred this way goes directly into the base Payoneer account.

The average salary in Ukraine is $490 as of March 2021, which is $365 more than it was six years ago, in 2015.

Average salary in Ukraine
as of March 2021



Source: State Statistics Service

Kostyantyn Chernichkin

Western Union, one of the largest and oldest money transfer providers in the world, has over 9,000 branches in Ukraine, where it works with Ukrainian banks like PrivatBank and Raiffeisen Bank Aval. Unlike Payoneer, Western Union doesn't allow freelancers to open local receiving accounts in the currency of their employers.

Oleksandr Slobodskyi, a design freelancer who's been using Payoneer for seven years, said some sites like Amazon require a U.S. bank account to receive money and many customers prefer simple bank transfers.

Slobodskyi said the Global Payment Service can be "very convenient" when working with several international clients.

"For clients, it looks like a quick and cheap local bank transfer," Slobodskyi, who writes blogs about payment systems, told the Kyiv Post.

The U. S. financial service company also offers an option to order a physical bank card to any part of the world. It's linked to the Payoneer account, which can be used at ATMs, in stores or online — anywhere MasterCard is accepted.

The prepaid cards are issued for free as long as the user has earned the first $100 in the Payoneer account. It takes approximately 2–3 weeks to get to Ukraine, and the annual card maintenance fee is $29.95. There's also a 3.5% fee for any transaction made in Ukraine.

Freelance finance expert Oleg Bilous said the debit card is not very useful in Ukraine because of the high currency conversion rate, but having a Payoneer account still helps him save money by avoiding taxes.

Like most freelancers, Bilous is registered as a private entrepreneur. His classification requires a tax rate of only 5% (if he earns under $253,000 a year). To remain eligible for the reduced tax rate, Bilous makes sure not to go over the limit by leaving the excess amount on his Payoneer account.

Many freelancers, he said, take advantage of Payoneer, avoiding taxes altogether by transferring small amounts that don't get noticed.

The growth in freelancing from Ukraine, however, is noticed. Ukraine ranked fifth in the world in freelance income growth. It's an attractive destination because of a large number of specialists at a relatively low cost, according to Konstantin Rudenko, product manager at Freelancehunt.

Processing payments that freelancers receive from abroad, Kovaliov from Payoneer noticed a trend — the Ukrainian freelancers are "conquering international markets" and it is "impressive."

IN PARTNERSHIP WITH

VASIL KISIL

Oleg Petrasiuk

The Parus Business Center in the financial district of Kyiv on May 5, 2021. Ukraine needs more investment so its economy can catch up with its neighbors.

Only rule of law will help attract foreign money

By Asami Terajima terajima@kyivpost.com

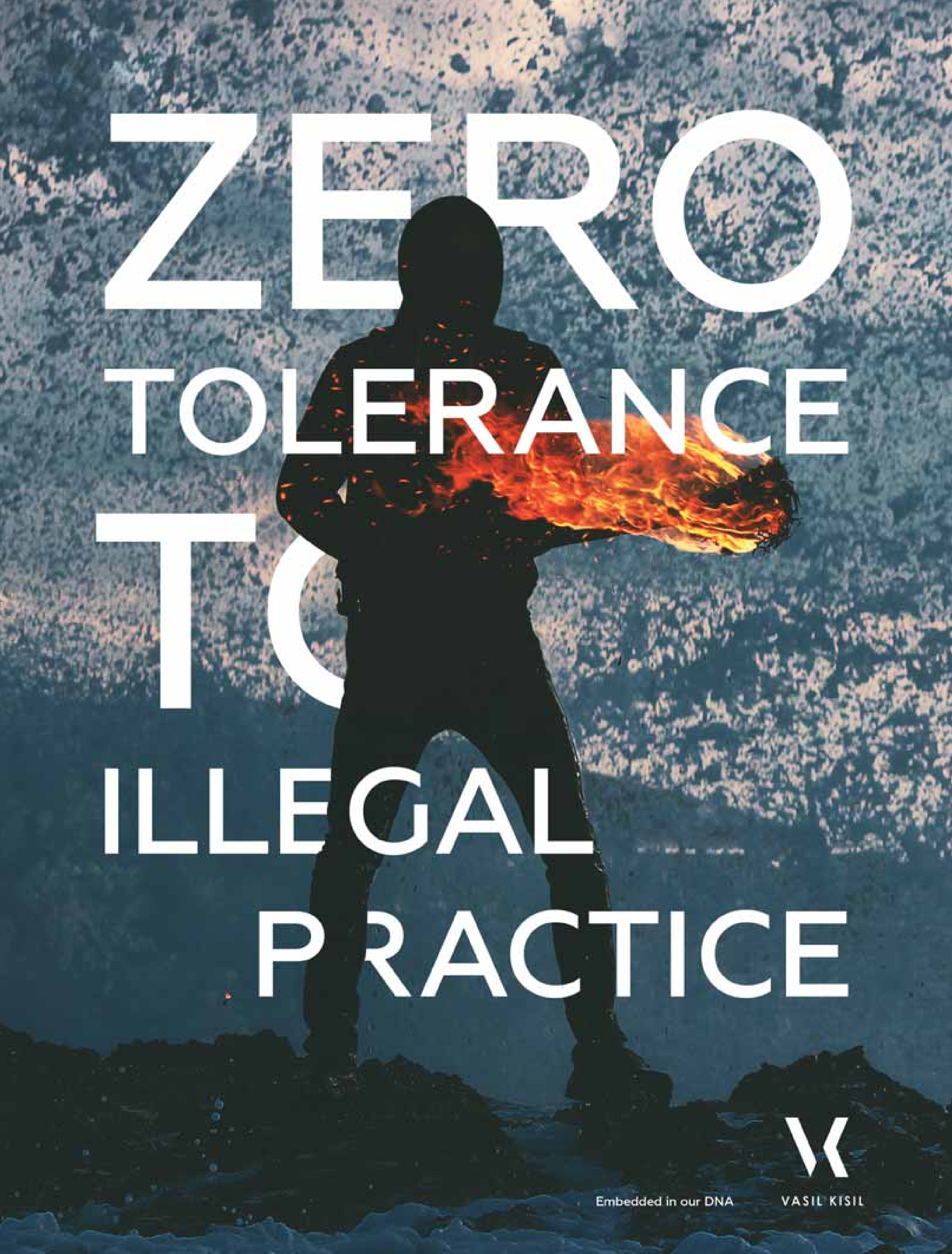
Ukraine's foreign direct investment, which was never strong, went into negative territory in 2020, with a net outflow of $950 million.

But this didn't sway the country from its optimistic goal to attract $15 billion in annual FDI by 2025.

Serhiy Fursa, a Kyiv-based investment analyst from Dragon Capital, said Ukraine needs more investment so its economy can catch up with its neighbors such as Poland, but capital spending by both the local people and foreigners is still "very low."

And the government's ambitious plan to attract more foreign investors, Fursa said, is "not realistic" because the country lacks a rule of law. Comprehensive judicial reform is needed.

The lack of trust in the judiciary, widespread corruption, and oligarchs' market monopolies and state capture are among the top obstacles that discourage foreign investment in Ukraine, according to a survey conducted by the European Business Administration, Dragon



ZERO
TOLERANCE
TO
ILLEGAL
PRACTICE
Embedded in our DNA
VASIL KISIL

Bank deposits in April 2021

Total $49 billion

Source: National Bank of Ukraine

Capital and the Center for Economic Strategy in November 2020.

Ukraine's judicial independence ranked 105th out of 141 countries while also placing 104th out of 141 countries in terms of transparency. Russia's war in the eastern Donbas also drives away potential investors, experts say.

Most countries suffered recessions in 2020 as a result of the coronavirus pandemic. Global foreign direct investment fell by 42% to an estimated $859 billion. But the low prospects of a rebound for developing countries like Ukraine remain "a major concern," the United Nations Conference on Trade and Development reported in January.

Without foreign investors, Ukrainians will have to shoulder the burden. Fursa said they will start investing more as earnings rise. The most popular investment destinations in Ukraine are domestic government bonds and real estate, although large amounts of money are sitting in bank deposits.

Domestic government bonds are available to both Ukrainian and foreign investors at a wide range of prices. The starting price is Hr 1,000 (around $36), and Fursa sees it as the most accessible, reliable investment option.

The yield for domestic government hryvnia bonds ranges from 8–12% and from 3–4% for dollar bonds, according to the expert. Ukraine's income tax of 19.5% does not apply to capital gains from debt securities.

As of April 28, the state owes a total of Hr 1 trillion (around $36 billion) to domestic government bondholders, according to the National Bank of Ukraine.

Real estate, which has been "traditionally popular among Ukrainians," is another common investment destination, Fursa said. The yield of an asset turned into a rental property can be up to 10% in central Kyiv or even higher if the property value increases over time.

Mykhaylo Demkiv, a financial analyst at Investment Capital Ukraine, said that "real estate is not a transparent market because most payments are made in cash to avoid paying tax," and therefore it is difficult to tell how much money is made in this sector.

But Demkiv pointed out that more people began growing their savings in 2020. Ukrainians spent $4.5 billion in the pandemic year, half as much as they spent in 2019, according to the analyst. He explained that this is because fewer people traveled and public places such as restaurants and shops stayed closed for several months during the lockdown.

Placing money into banking institutions for safekeeping has been the most popular investment option among the locals, which led bank deposits in Ukraine to grow by 25% last year, according to Fursa. The interest rate is usually around 8%.

In March, deposits by companies and households reached $49 billion, according to the NBU.

Successful reforms "can potentially accelerate growth and boost private investments across the economy," said Jason Pellmar, International Finance Corporation regional manager for Ukraine, Belarus and Moldova.

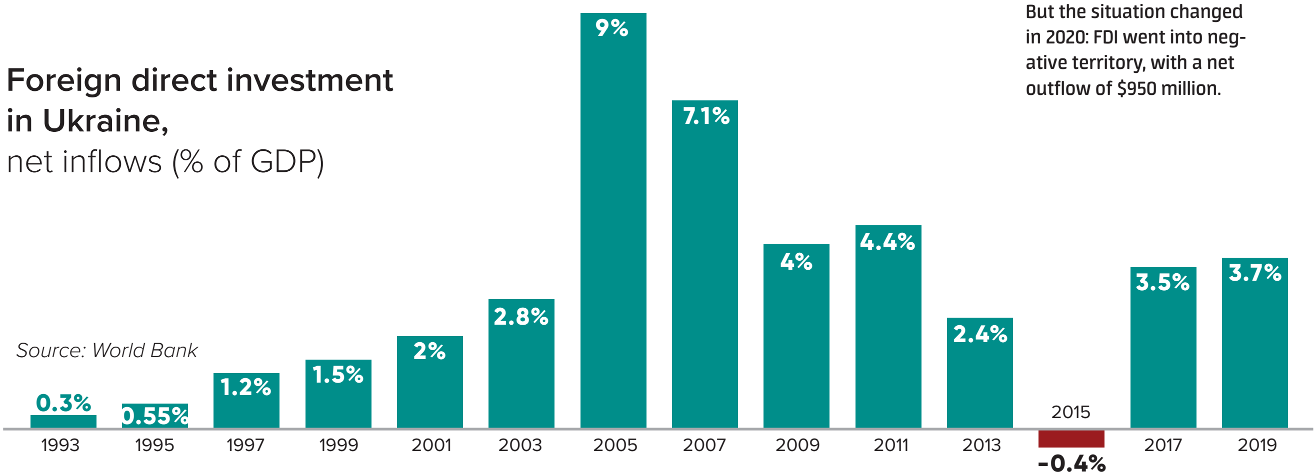
Pellmar pointed out that Ukraine's partnership with the International Monetary Fund will be important not only for macroeconomic stability but as "an indicator for potential investors interested in Ukraine. A swift and sustainable recovery of the country will depend on the current state-led reform agenda." ■

> **Real estate is not a transparent market because most payments are made in cash to avoid paying tax.**
>
> — Mykhaylo Demkiv, financial analyst

Foreign direct investment in Ukraine,

net inflows (% of GDP)

Source: World Bank



Ukraine saw more inbound than outbound foreign direct investment in 2019. But the situation changed in 2020: FDI went into negative territory, with a net outflow of $950 million.

Promprylad.Renovation:

How to join the largest Ukrainian impact investment project which transforms the country

Promprylad.Renovation is an innovation center on the territory of the revitalized plant in Ivano-Frankivsk. It is focused on four areas of regional development: the new economy, urban planning, contemporary art, and education.

The project implements impact investment: Investors fund the development of the region and receive a return on investment in the form of dividends at the same time.

The main objective of the project is to reboot the city and eventually the whole region, moving it from a post-Soviet context into modern sustainable development. It aims to create opportunities for the development of local talents so that they do not leave the city as well as attract new people and become an example for the recreation of this model in other cities with similar conditions.

The Promprylad.Renovation business model envisages that 70% of the project belongs to co-investors and 30% to the charitable fund of the same name. After revitalization is completed, 70% of profits will be paid to investors as dividends and 30% will be distributed as grants to develop projects in the city and the region. In addition, 30% of the plant is leased at reduced rates to low-profit and non-profit organizations important to the development of the center's ecosystem.

As of today, the project has already attracted $8.4 million from more than 800 investors. 6,200 square meters have been rebuilt . This is 16% of the total area of the Promprylad.Renovation innovation center. In total, the project provides for the development of infrastructure with a total area of 38,282 square meters on a 2-hectare plot.

This area organically combines social development and business functions. Promprylad will contain a children's development center, a multifunctional event site, a hotel and hostel, offices of innovative companies, a food market, a makerspace, R&D centers, a cinema center, a business school, incubators, accelerators, etc. According to the business plan, the project should be fully implemented by the end of 2023.

The total budget of the Promprylad.Renovation project is $30 million, $12 million of which is invested by companies and private investors.

The project model provides for the opportunity of attracting both small investments starting from Hr 50,000 and professional slots starting from Hr 2.5 million.

As of May 2021, the Promprylad.Renovation community already unites 850 investors from all Ukraine's regions as well as 28 foreign countries, and continues to grow every day.

Besides crowdinvesting, the project also raises loans and grants from international partners – $13 million and $5 million, respectively. Promprylad has already received almost $300,000 from the governments of Canada and Sweden and is negotiating loans with IFIs and several Ukrainian banks with international capital.

The major investors of Promprylad.Renovation include CEO and project founder Yuriy Fylyuk, MacPaw, HD Group, DELTA Ukraine, creative agency Banda, chairman of the board of directors of Effective Investments Igor Liski, Kormotech owners Rostyslav and Yuliana Vovk, Nova Poshta co-owners Viacheslav Klymov and Volodymyr Popereshnyuk, and others.

In addition, Promprylad.Renovation is also supported by 32 institutional partners, including the governments of Sweden and Canada, The International Renaissance Foundation, Ivano-Frankivsk City Council, etc. To develop the vision, strategy and business model, the project attracted the expertise of both national and international partners, namely SRI International, EY, London School of System Change, Robert Bosch Foundation, BMW Foundation, CANactions, and others.

Yuriy Fylyuk,
CEO of the project

"One of the biggest positive effects of the project is the development of a unique investor community. We have managed to bring together people who are interested in more than just accumulating financial capital. Promprylad.Renovation investors form a community with common values and a strong international business reputation. And the synergy of these people increases the added value of the project, because they not only implement one of the most ambitious projects in Ukraine together, but also open new horizons for interaction and creation of new projects beyond its borders."

How to become an impact investor?

In the spring of 2021, the Promprylad.Renovation project began its third stage, with a goal to attract 1,000 impact investors. Both individual investors and companies can join.

The motivation of Promprylad.Renovation investors is twofold. On the one hand, it is an opportunity to join a unique project, which is an important engine of development of the region and the country in general. On the other hand, there is a financial component, because the project has managed to achieve competitive performance in the real estate market, both in terms of profit earning and capitalization.

In 2019-2021, Promprylad.Renovation has increased its assets twofold by international standards. As a result, the capitalization of the investment project increased by 36.24%.

Thanks to its unique business model, the project manages to create a significant impact on the development of the region along with the creation of added economic value for its investors.

Over the course of the project, many positive changes have already taken place in the city. The activities of Promprylad.Renovation were recognized as one of the key factors behind Ivano-Frankivsk taking first place among Ukrainian cities in the Doing Business Forbes Ukraine ranking in 2020. Ivano-Frankivsk was also recognized as the most comfortable city for IT specialists to live in, according to the DOU.ua ranking for 2020.

The project was officially included in the development strategy of Ivano-Frankivsk, gained the support of the government and the President of Ukraine, and broke into the country's top 5 investment magnets at the global level.

Promprylad.Renovation also became the first Ukrainian business project with a strong social component. It gained recognition and support from international partners and was presented in Davos, Brussels, Toronto, Stanford, Oxford, the House of Lords of the United Kingdom, and other international platforms as a project which shows great promise for further replication both in and outside Ukraine.

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Ukrainians invest in franchises to start business with lower risk

By Daryna Antoniuk antoniuk@kyivpost.com

To open a franchise of e-commerce giant Rozetka, tech specialist Roman Pasechniy invested nearly $23,800.

He rented a 63-square-meter office in Kyiv's Troieshchyna neighborhood and, within six weeks, turned it into one of Rozetka's first pick-up points. According to Rozetka, his franchise will bring over $1,270 in net profit every month.

Pasechniy knew from the beginning that his franchise won't make a fortune — Rozetka only pays him $0.7 for every order delivered to a customer. Still, Pasechniy thinks it's a good deal: When the investment pays off, he could open another department and earn more.

Apart from Rozetka, over 800 local companies sell franchises in Ukraine and abroad, according to consulting company Most. For businesses, franchising is the easiest way to expand, attract new clients and generate profit.

Ukrainians, in turn, want to invest in franchises because it is safer than starting a business from scratch. Even aspiring entrepreneurs with no experience in business can buy a franchise because everything — logistics, services and products — is already tailored for them.

"The biggest businesses in the world have their franchises — it is the fastest and the cheapest way to grow a company," said Roman Kirilovich, owner of Franch, a company that creates and advertises franchises in Ukraine.

Emerging market

Unlike the U.S., where giants like McDonald's, KFC and Burger King have been selling their franchises for decades, the Ukrainian franchising market remains untamed.

Up to 10% of small local businesses work as franchises, compared to nearly 80% in the U.S. and 70% in Europe, according to Kirilovich.

Franchising is the most popular in the food industry with bistros like Frans.ua, Lviv Croissants, Aroma Kava and FreshLine sprawling across the country. The scope of investments in these franchises ranges from $36,800 to $63,000, depending on location and the size of the building.

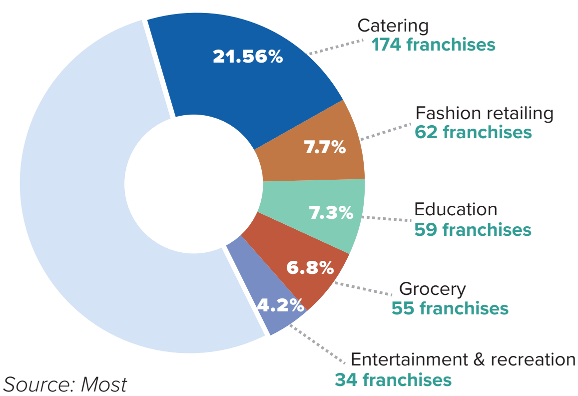
The demand for franchises in the food business has decreased during the pandemic, but franchises in security industry, fashion retail and medicine are gaining momentum, said Myroslava Kozacuk, cofounder of Franchise Group that launched franchises for security company

Kostyantyn Chernichkin

Roman Kirilovich, owner of Franch, a company that creates and promotes franchises, talks with the Kyiv Post on April 20, 2021.

More than 800 Ukrainian companies sell franchises, according to consulting company Most.

Top 5 industries by number of franchises in Ukraine



Source: Most

Sheriff, beauty salon G. Bar and bistro chain Frans.ua.

Ukrainian franchises are usually popular among small businesses ready to invest up to $30,000 and earn on average $1,300 in net profit a month.

Big businesses, in turn, usually invest in foreign franchises like KFC or Domino's because these companies are expensive and the requirements for entrepreneurs are higher.

"It is very difficult to bring a foreign franchise to Ukraine. Businesses have to prove first that Ukraine is a reliable market that can bring profit," Kirilovich said.

Franchising Wild West

Although franchising is a popular business, Ukraine remains the Wild West for it because there are no laws that regulate the market. Even estimates of its size are approximate because franchises pop up across Ukraine all the time and no one keeps track of them, according to Kirilovich.

Experts said that this lack of regulation is good for franchising. It allows businesses to resolve conflicts without courts and opens the market to everyone.

Entrepreneur Dmytro Borysov, owner of the Gastrofamily restaurant chain that includes popular eateries like Chicken Kyiv, Bilyy Nalyv, Mushlya and Dogz and Burgerz, told the Kyiv Post that many owners of his franchises hadn't worked in the restaurant business before but wanted to try.

One of them, Anton Zarichnuk, opened Bilyy Nalyv in Vinnytsa, the city of 370,000 people 268 kilometers southwest of Kyiv, when he was only 19 and studied at the local university. Zarichnuk's parents helped him with investments but it was his "adventurous idea" to buy a franchise.

Bilyy Nalyv is Borysov's most popular franchise because it is cheaper than big restaurants and doesn't take much space — nearly 50 square meters. The investments in the franchise pay off in nearly 12 months or even earlier, depending on the location. First Bilyy Nalyv on Kyiv's central Khreshchatyk Street, for example, returned investments in just 54 days, Borysov said.

A franchise of a small cafe like Bilyy Nalyv can cost on average $30,000. The comparatively low barrier for entry doesn't mean that profiting on a franchise is easy. By investing in one franchise, local entrepreneurs buy themselves independence and work, experts said, but to earn big money, they have to invest in more locations.

Building empires

It is a common practice for entrepreneurs who started with one franchise to grow their business, according to Andriy Khudo, co-owner of the restaurant chain Fest Local that, among others, includes eateries like Rebernia, Lviv Handmade Chocolate, Piana Vyshnia and Beer Theater Pravda. Khudo has 125 restaurants across Ukraine, nearly 60 of them work as franchises.

"If businesses buy several franchises, it means that a franchise is good," Kozacuk said. According to her, the more franchises the company has, the higher its value.

Local owners of franchises know the needs of their customers, therefore help businesses to thrive in local markets, said Maxim Melezhik, head of franchising at Ukraine's parcel delivery firm Nova Poshta.

Nova Poshta has over 8,000 postal offices — 6,500 of them operate as franchises in towns and villages. The company works with over 700 partners. Opening a Nova Poshta office in a village can cost only $3,000.

Entrepreneur Oleksandr Granovsky, who now owns 29 Nova Poshta offices in Kyiv Oblast, most of them in villages, usually returns his investments in 12–18 months. According to Granovsky, his business has opportunities to grow because postal services in villages are in demand.

"I see how local business evolves as people are gaining access to new customers across the country and even abroad" with the help of Nova Poshta's delivery services, he said.

Selling abroad

Nearly 40 Ukrainian businesses have their franchises abroad, usually in Eastern and Western Europe. Ukrainian franchises are good enough to compete even with businesses in the U.S., Kozacuk said.

Companies that work on foreign markets have more responsibilities and liabilities, according to Kirilovich. They also need a reliable partner to run their company in another country.

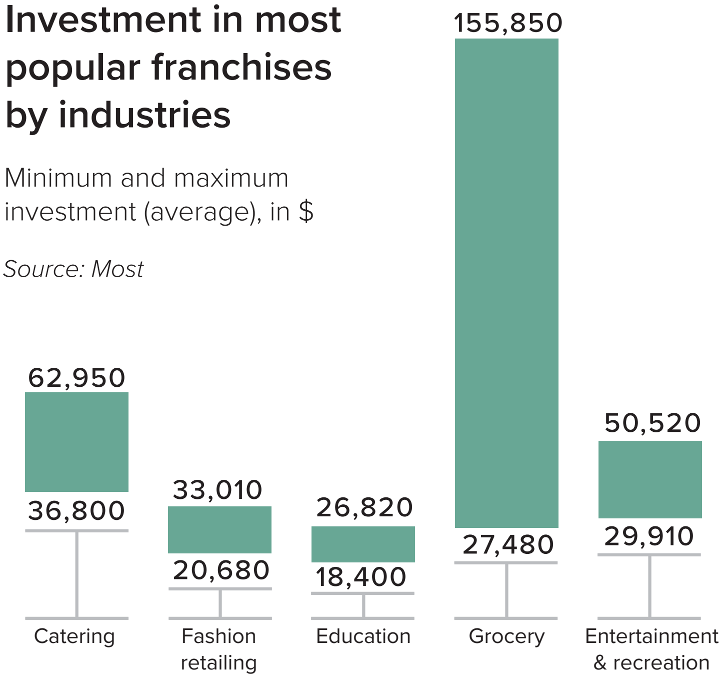
"There are many difficulties (of opening a franchise abroad). This business is risky but interesting," said Iryna Pohodina. She owns Ukraine-founded hairdresser Express Haircut that has 130 salons in five countries, 100 of them are franchises.

The initial fee to open an Express Haircut in Ukraine is $1,000, in Russia and Kazakhstan — $3,000, and in Europe — $5,000. The total investment in its franchise in Europe is nearly $30,000 and $10,000 in Ukraine. The profit in Europe is higher too: $2,500 compared to $1,200 in Ukraine, according to Pohodina.

Investment in most popular franchises by industries

Minimum and maximum investment (average), in $

Source: Most



Kirilovich pointed out that local businesses enter foreign markets because the initial fees, royalties and investments there are higher than in Ukraine.

To open Khudo's Piana Vyshnia, the store that sells craft cherry brandy, Polish and Romanian entrepreneurs must pay at least $100,000, while in Ukraine it costs nearly $75,000.

Apart from Poland and Romania, Khudo

Franchising is the most popular in the food industry with bistros like Frans.ua, Lviv Croissants, Aroma Kava and FreshLine sprawling across the country.

Even people with no experience running a business can buy a franchise: it's easier than starting a business from scratch. People who buy a franchise often have to be its first employees.

A customer picks up a package at a Kyiv branch of delivery company Nova Poshta. The company has over 8,000 postal offices and 6,500 of them work as franchises.

has other franchises in Azerbaijan, Moldova and Latin America. He said that to enter a foreign market, Ukrainian franchises need to have a concept that foreigners will like.

"You can be very cool in Ukraine but your idea can fail abroad," Khudo said.

It happened with Salateira, Ukraine's fast-healthy restaurant chain that opened a franchise in Spain and its own restaurant in Dubai but had to close them because the demand for salads there was low and competition high, according to Salateira's founder Alexander Savilov.

Neighboring Belarus has fewer competitors, thus Savilov's business there has taken off and brings profit. Now he has four restaurants in Belarus, the fifth will open soon. All of them are owned by one local entrepreneur.

Kirilovich said that it is easier for local franchises to work in the service sector abroad because the demand for services is higher.

The Ukrainian G. Bar has franchises in Poland, Belarus, Georgia, Estonia, Kazakhstan, Russia, Cyprus and even the U. S. The initial fee for its franchise is $15,000, the investment in one location starts from $50,000 in Ukraine and $70,000 in Europe.

Overcoming difficulties

Franchising is not always a win-win for a business and the owner of a franchise.

People who have never worked in business do not understand what franchising is and how it works, Kirilovich said. "When you buy a franchise, you also buy its rules," he said.

Some franchises do not follow them: refuse to pay royalties or violate corporate standards. Some franchises simply do not take off.

"You can't just replicate one successful restaurant in another city. In franchising business, everything – from technology to business processes – must be adapted for a new market," Borysov said.

Ukrainian entrepreneurs agree that running a business under the name of a famous company can be hard but say that it is worth a try.

"I am happy that I decided to start a franchise business. After working in the tech industry, I had to change my mindset from the position of an employee to the position of an entrepreneur," Pasechniy said. ■

Opening a Nova Poshta office in a village can cost only $3,000.

Fear of transparency prevents some firms from going public

By Daryna Antoniuk antoniuk@kyivpost.com

Over 490 companies went public in the U.S in 2021, while only one firm did in Ukraine.

Football club Veres set a precedent when it started selling its shares to the public in April. Some viewed it as a sign of revitalization of Ukraine's archaic stock exchange, while others just made fun of the deal, saying it won't bring investors any profit.

The process of raising money through initial public offerings, or IPOs, is tedious and entails risks. Local firms rarely even think about going public in Ukraine. They would rather look for investors abroad, where there's more money and security.

Ukrainian investors, in turn, hesitate to buy shares, as the country doesn't have an investment culture like in the U.S., where over half of citizens own stocks.

For local IPOs to become an investment tool along with bonds and deposits, many things have to change, experts said. First, the companies need

Fans of Ukrainian football club Veres support the team during a football match on May 21, 2020. Veres is the first company in the last fifteen years that went public in Ukraine, the move that can shake up Ukraine's archaic stock exchanges.

Football club Veres

Market capitalization of world's stock exchanges,
in trillion $

Source: Trading Hours

Securities have never been a popular financial tool in Ukraine, where the offerings on the local stock exchanges are limited to privatized companies like Centrenergo, Ukrnafta and Turboatom that have a complicated structure and don't have strong returns.

to be more transparent, while investing should become simple and reliable. Most importantly, Ukrainian public companies should bring profit to their stakeholders; otherwise, investors will put their money elsewhere.

And it seems the situation is beginning to change for the better.

"It's a matter of time before Ukrainian companies become public," said Marina Mashkovskaya, CEO of brokerage company Freedom Finance. "Globally, there is no better way to raise capital than a stock exchange."

Fear of publicity

Ukraine has all the ingredients for successful IPOs: legislation, investors and stock exchanges to trade securities. But, apart from Veres, few companies are ready to share their business with stakeholders — it is too "exotic" for them, according to Sergii Moskvin, president of the Ukrainian Capital Markets Association.

Being public means that a company has to publish its financial statements and disclose the structure of ownership to help people understand whether it's worth investing.

Besides, public companies have to invite their stakeholders to make collective decisions about the future of the business — something that big Ukrainian businesses, which are usually owned by one Ubermensch, are reluctant to do.

While speaking publicly, many private firms avoid questions about their income or size and don't like to talk about their beneficiaries and owners. They say they fear unfair competition, but experts believe that it is a way to hide corruption.

Better abroad

Instead of raising money from the public, the companies' owners prefer to use their own money, according to Moskvin. That's why Ukrainian investors have no choice but to invest in foreign companies.

"Our investors are used to trading on foreign stock exchanges where the structure of companies and the process of IPO is simple and transparent," said Olexandr Kulikov, director of the Ukrainian investment firm Univer.

Experts said that companies that are potentially ready to go public include parcel delivery giant Nova Poshta, mobile operator Kyivstar, private hospital Dobrobut, and wireless alarm maker Ajax.

For now, only Ajax has confirmed that it wants to go public but said it would trade its shares in Europe or the U.S.

Unfortunately for the Ukrainian stock exchange, even when local firms do go public, they most likely do it abroad. Ukraine's largest agricultural holding MHP and ore pellet producer Ferrexpo trade their shares in London; agricultural giants Kernel, Ovostar, Milkland and Astarta sell securities on the Warsaw stock exchange.

Foreign stock markets are more prestigious, profitable and reliable. In addition, companies that trade shares abroad are valued higher and attract more investors there, according to Olga Magaletska, head of the office at Ukraine's National Investment Council.

Lack of interest

For investors in Ukraine, securities have never been a popular financial tool. Firstly, because the offerings on the local stock exchanges were limited to privatized companies like Centrenergo, Ukrnafta and Turboatom that had a complicated structure and didn't bring much profit to the table. Apart from that, there are safer ways to accumulate money in Ukraine, including bonds and deposits.

Deposits are the easiest way to earn additional money, Mashkovskaya said. Although the returns are usually low, there is nothing to risk and be afraid of, apart from bank's insolvency. But even then, investors are guaranteed $7,000 of compensation from the state.

Once hugely popular, deposits start losing momentum.

Over the past year, the annual deposit rate in banks has decreased from 11% to 7.5%. People have started to look for other investment tools, said Ukrainian stock market expert Lyubomyr Ostapiv.

More people now turn to government bonds that are reliable and don't come with a 19.5% tax that Ukrainians have to pay for income from deposits, corporate bonds and shares.

In 2020 the government bond market accounted for $11 billion, or 98%, of the total volume of the trade on Ukrainian stock exchanges, while securities accounted for nearly $21 million.

"Investors are conservative: they go from more secure investment tools (like deposits) to riskier ones (like stocks)," said Maksym Libanov, commissioner at Ukraine's National Commission on Securities and the Stock Market.

Financial analysts predict that the next step between government bonds and securities are corporate bonds issued by local businesses.

In 2020, Nova Poshta issued corporate bonds worth $21 million with a 16% yield, while leasing company Eska Capital issued bonds worth $3.6 million with a 17% annual yield.

Compared to other investment tools, IPOs are riskier and more complicated, but they can bring higher profits in the future, according to Mashkovskaya.

Government involvement

The history of the Ukrainian stock exchange started from massive privatization in the 1990s when ordinary Ukrainians could invest in state-owned enterprises.

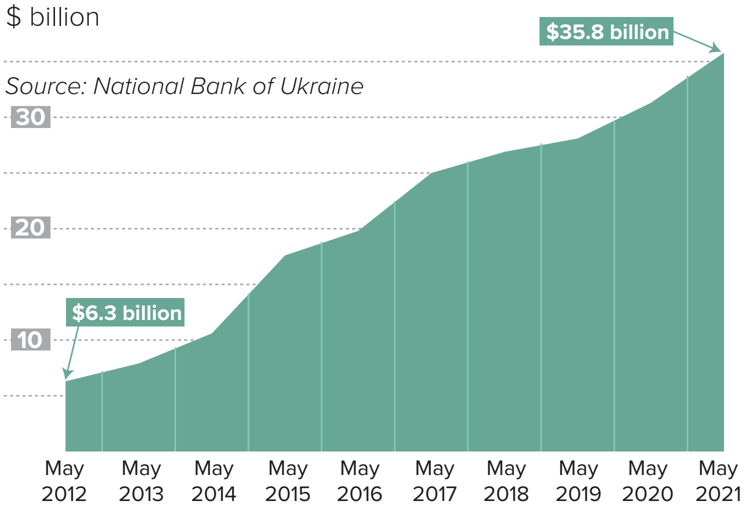
"This idea didn't work because Ukrainians didn't know what to do with their stocks," according to Libanov.

Today, IPOs of state companies can give a boost to the Ukrainian stock market as the new generation of investors is ready to invest and the government is eager to help. "Through the state IPOs, the government can show this tool is simple and reliable," Mashkovskaya said.

Ukrainian enterprises preparing for the privatization include the state-owned PrivatBank, Oschadbank, Ukrgazbank and Ukreximbank that represent over 54% of the banking sector.

Domestic government bonds in circulation

$ billion



More people now turn to government bonds that are reliable and don't come with a 19.5% tax that Ukrainians have to pay for the income from deposits, corporate bonds and shares.

Football club Veres set a precedent in Ukraine in April 2021 when it went public on the local stock exchange, selling its shares $3.6 apiece. But while foreign clubs like Manchester United and Juventus used IPOs to earn a lot of money, Veres won't make much.

"The IPO of PrivatBank with its 300,000 clients could improve the culture of investment in Ukraine," Ostapiv said.

Among other state companies that have voiced their plans to go public are Ukraine's postal operator Ukrposhta and railway monopoly Ukrzaliznytsia.

Experts do not believe that it will happen in the near future: these companies are mired in scandals, lose money and have problems with management. In March, the Cabinet of Ministers fired Ukrzaliznytsia's CEO Volodymyr Zhmak for lobbying oligarch Rinat Akhmetov's interests, while Ukrposta's CEO Igor Smelyansky is constantly arguing with the government about how to run his enterprise.

"Even if the state takes steps towards IPOs, the market will not accept it because of problems with corporate governance in state-owned companies," Libanov said.

To change that, Ukraine set up a $3.6-million investment fund that will help state-owned enterprises go public and improve their corporate governance.

The main goal of the fund is to show local and foreign investors that investment in Ukraine's state-owned firms is simple and profitable, according to Magaletska.

According to Magaletska, IPOs will improve Ukraine's investment climate and the country's position in the Doing Business ranking, while increasing the trust of the international partners.

Public companies will also make the Ukrainian market more transparent and efficient, according to Kulikov. For companies, it is the opportunity to expand their business and accumulate capital, while for investors — IPOs are the additional revenue stream, Ostapiv said.

And the first thing Ukrainian businesses can do to become public is just to get the ball rolling, according to Mashkovskaya. "The longer we postpone IPOs, the slower we develop our stock market," she said. ■

Securities traded in Ukraine in January-December 2020,
in million $

Ukrainian stocks	21
Foreign stocks	0.25
Government bonds	11,000
Corporate bonds	33

Source: National Commission on Securities and Stock market

AFP

Soybeans imported from Ukraine being unloaded at the port in Nantong, in China's eastern Jiangsu province, in May 2019. Agricultural companies in Ukraine are exempt from value-added tax when exporting their products.

Ukraine collects nearly $40 billion in taxes, relies heavily on VAT for budget

By Asami Terajima terajima@kyivpost.com

Most tax revenue in Ukraine comes from social tax, personal income tax and value-added tax. Combined, taxes account for 79% of the country's state budget revenue, or $31 billion.

In 2020, Ukraine collected $38.5 billion through tax and non-tax revenue. Much of it came from value-added tax on both imported and domestic goods — 37.2%. The state budget approaches $50 billion; the remainder is financed by borrowing.

Employers' 41.5% commitment

Employers in Ukraine pay three taxes on every salary: a social tax, an income tax and a military levy (introduced in 2014). In total, a company pays 41.5% in taxes for one employee.

Tax experts agree this combined rate is too high. Vladimir Dubrovsky, a senior economist at CASE Ukraine, a think tank for social and economic studies, said that the current rate encourages employers to evade taxes.


In a changing world, how can every action make a difference?
In 2021 EY celebrates 30 years of doing business in Ukraine. Through actions both big and small, EY people have been helping clients and society tackle challenges and realize their ambitions. Discover how we are building a better working world.
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Building a better working world

As a result, many enterprises either pay their workers off the books, in cash, thus lowering the reported official salary and paying less in taxes, or ask their staffers to register as individual entrepreneurs to be able to pay a modest 5% individual entrepreneur tax.

Employers who want to be 100% legal are overburdened with taxes and may not outcompete their less conscientious counterparts. "It's like punishing an employer for creating jobs and paying salaries," Dubrovsky said.

Value-added tax

Currently, there are three VAT rates in Ukraine: 20%, 7%, and 0%.

The reduced rate of 7% applies to export and import of specific medical goods and medical equipment that's used in clinical trials. Starting in 2021, this rate is also applied to some services, including holding cultural events and arranging excursions in museums, zoos and natural reserves.

The 0% rate applies to the supply of international transport and toll manufacturing services (if the finished goods are then re-exported from Ukraine), and some other services.

The 20% rate applies to the rest of the transactions that are subject to VAT.

An electronic system to collect VAT and anti-tax evasion measures created a more transparent environment, when it was introduced in 2015, Serhii Popov, head of the tax and legal desk at auditor KPMG, told the Kyiv Post.

Property tax

The local property tax, meanwhile, is still relatively new and undeveloped unlike in many Western countries, where property taxes provide the backbone of local budgets, often accounting for more than half of tax revenues.

In Ukraine, property tax contribution is worth only 3% of revenues. The State Treasury Service doesn't even have a separate category for property tax and combines it with other personal income tax revenues, which together secure 10.9% of the budget.

Unlike in other European countries like Germany where the rate is determined by the assessed value of the property, Ukraine's system is based on the size of the apartment or building.

Are changes needed?

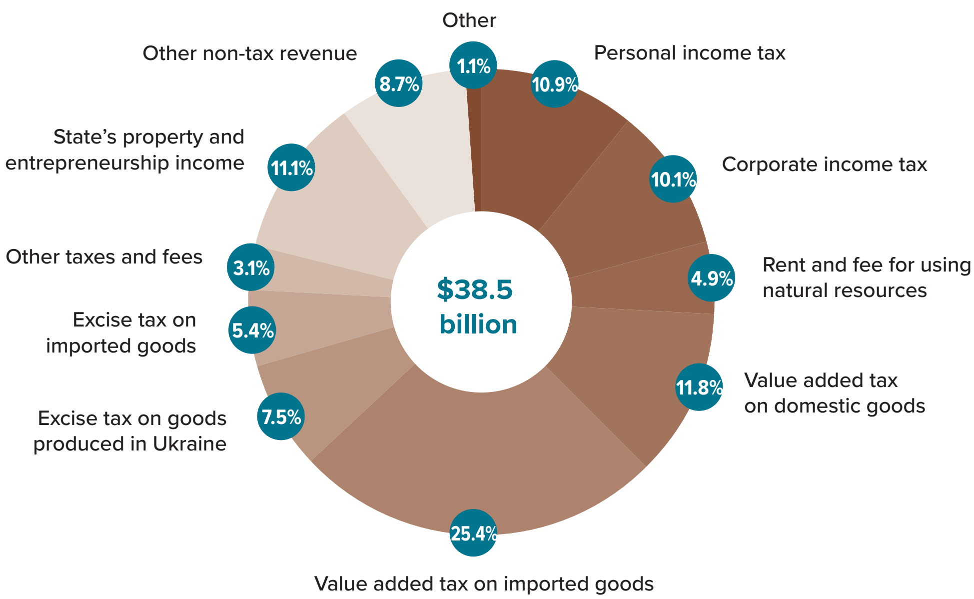
The government plans further changes to the tax legislation, which includes an increase in the tax on natural resources and excise tax on a number of goods, according to Alexander Cherinko, head of the tax & legal department at auditor Deloitte Ukraine.

But Cherinko doesn't think massive changes are required. He said Ukraine's focus should be on building trust in a relationship between taxpayers and tax authorities, rather than changing legislation.

More businesses, meanwhile, have come to understand the importance of auditing, since the new law on auditing was passed in 2018, said Gregoire Dattee, a partner at Mazars in Ukraine. According to the expert, more companies are subject to mandatory audits today, which helps foster trust and transparency in the business market.

> **Ukraine's focus should be on building trust in a relationship between taxpayers and tax authorities.**
>
> — Alexander Cherinko, tax & legal department head at Deloitte Ukraine

State budget revenue in 2020 by sources



Source: State Treasury Service

Much of Ukraine's state budget revenue in 2020 came from value added tax on both imported and domestic goods, which comprised 37.2% of the total $38.5 billion collected through tax and non-tax revenue. The state budget, however, approached $50 billion. The remainder was financed by borrowing.

Kostyantyn Chernichkin

Danil Getmantsev, head of the parliament's finance and tax committee, talks with the Kyiv Post on May 21, 2021. He demonstrates a pack of bootleg vodka that his aide ordered online. The bootleg vodka market costs Ukraine billions every year in unpaid excise taxes.

Danil Getmantsev has a battle plan to push billions of dollars out of economic shadows

By Olga Rudenko rudenko@kyivpost.com

It's often estimated that at least a quarter of Ukraine's economy is in the shadows.

Danil Getmantsev believes it's closer to half.

For nearly two years, the head of the parliament's finance and tax committee has been leading the country's effort to plug the holes in legislation that allow for tax evasion.

"It's a system that worked for 28 years, and it's resisting change," Getmantsev says. "The resistance is so colossal, we couldn't have imagined it when we were starting."

A number of things have been done and are about to bear fruit.

A broad fiscalization law, passed in 2020, will oblige most small businesses to use cash registers — a move that would eliminate under-the-table retail. Sales of Ukrainian assets via offshore firms are now taxed in Ukraine. A tax amnesty is under way.

Other changes remain to be launched.

Among them are the government's efforts to raise extraction fees for natural resources, resisted by oligarchs, and to end the enormous market of smuggled and counterfeit goods.

If all of it comes through, it will massively help Ukraine's budget. Getmantsev and the Finance Ministry estimated that the changes, paired with the control from law enforcement, can bring the state budget an extra $1.6 billion a year from excise duties, and $2.2 billion a year in other taxes, including from oligarch-dominated businesses.

De-shadowing the economy will add at least 2% to the annual gross domestic product growth, according to Getmantsev. Ukraine's GDP was estimated to be only $142 billion in 2020 and is forecast to grow by 4% in 2021.

At first, though, the changes will make many people unhappy, Getmantsev acknowledges. Some of them are small entrepreneurs that protest fiscalization. Some are oligarchs that wield TV channels and flocks of lawmakers.

'Everyone must pay'

Getmantsev, a former lawyer and law professor, was elected to parliament on President Volodymyr Zelensky's party ticket in 2019 and has headed the finance and taxes committee ever since.

His job is to advocate for often-painful tax changes and push them through parliament. He has become the face of Zelensky's administration's sweeping effort to de-shadow the economy.

Advanced economies in the European Union are 10–20% in the shadow, according to a 2019 estimation by the International Monetary Fund. In Ukraine, various estimates put it at 27–40%.

But Getmantsev, who spent almost two years trying to de-shadow it, guesses that it's 50%.

He has a simple solution that is proving very hard to apply.

"Everyone must pay all the taxes they are due," he says. "There must be no exceptions or benefits that root from corruption. A state that doesn't steal has the right to demand that taxes are paid."

But those who profit from low or unpaid taxes don't want their ride to end.

One of the tax changes' most powerful opponents is the country's richest oligarch, Rinat Akhmetov. The next bill to land in Getmantsev's committee can cost Akhmetov dearly.

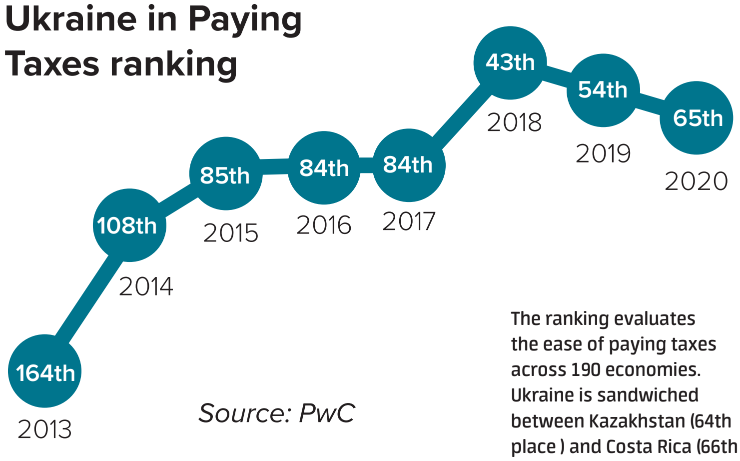
Big prize

A package of tax changes prepared by the Finance Ministry will be the most important piece of legislation that the parliament will consider in the coming months. The Servant of the People faction wants to pass it before the end of the current session in mid-July.

The most discussed clauses in the draft law concern raising iron ore extraction fees and the introduction of excise duties for green energy.

These two proposed changes made Ukrainian media dub the draft "the anti-Akhmetov bill." The

Ukraine in Paying Taxes ranking



The ranking evaluates the ease of paying taxes across 190 economies. Ukraine is sandwiched between Kazakhstan (64th place) and Costa Rica (66th place). Bahrain ranked first and Venezuela — the last.

oligarch's companies extract 60% of iron ore in Ukraine and produce about a quarter of all green energy in the country.

Hearing this moniker, Getmantsev shakes his head in slight annoyance.

"It's not an anti-Akhmetov bill," he says. "In fact, it's a pro-Akhmetov bill."

How so? In the long run, he argues, "equal rules for all" will make Ukraine a more attractive jurisdiction for doing business. It means that the value of any assets of Ukrainian oligarchs located in Ukraine will grow, making them richer.

"If we moved the enterprises owned by our oligarchs to Poland, they would automatically be worth 10 times more than now," he says.

So any business, including oligarch-owned, will win from the changes the government proposes, he argues.

It might prove hard to make Akhmetov see it this way. Just from the raised iron ore fees, which would be tied to the market price instead of production cost, the oligarch may have to pay an extra $11 million to the budget every year.

"We must persuade business that we don't have a special focus on one oligarch, but that everyone is equal," he says.

As an example of equality, he reminds that at the same time the government seeks to introduce a painful change for farmers, raising their income tax twice. It will still be tied to the amount of land a farmer has.

There is resistance.

"Agricultural producers have a huge lobby in the parliament," says Getmantsev.

So does Akhmetov. Ukrainian media estimated that he influences dozens of lawmakers, including in the Servant of the People faction, based on how they vote.

For nearly two years, Danil Getmantsev, head of the parliament's finance and tax committee, has been leading the country's effort to fight shadow economy.

His representatives have denied meddling in politics.

"The problem with the oligarchy is that they don't debate whether a proposed solution is right or wrong. They just have a financial interest and they defend it on every level – through politics and the media," he says.

Apart from quashing solutions, oligarch meddling has a longer-term detriment.

Oligarchy-based economies are weaker because there is no normal competition.

"In a free competitive environment, to survive as a business, you have to work your brain and be innovative," Getmantsev says. "But when you can protect your profits by picking up the phone and calling a minister or a lawmaker, or deploying your TV station – you stop thinking about how to work better. That's why economies based on oligarchy are doomed."

Plugging holes

The tax changes that the parliament aims to pass this summer will anger more than just oligarchs and farmers.

Among other things, the proposed changes will end a scheme where developers use individuals who pose as legal sellers of apartments in order to save on the taxes and pay the state 6% instead of 18%. From now on, a person will be able to sell only two apartments per year at the reduced tax rate. Selling the third and so on will incur the full amount.

Another change awaits people who drive cars worth more than $80,000 – they will have to pay a "luxury tax" annually. It's amount is tied to the government-defined minimal salary, and now constitutes $900.

The government presented the draft law but hasn't yet submitted it to parliament. Some of the proposed changes may not make it to the final version due to resistance of the lobbyists.

Another key piece of legislation to help de-shadow the economy is the fiscalization bill, passed in 2020. After it was met with public rebuke, the government had to postpone one of its most impactful measures – the obligatory cash registers for certain groups of individual entrepreneurs, known in Ukraine by their local abbreviation, "FOP."

There are more than 1.8 million of individual entrepreneurs in Ukraine. Many bigger businesses use FOP status to optimize taxes. Such "entrepreneurs" can sell smuggled or counterfeit goods, such as smartphones or bootleg alcohol.

The use of cash registers will ensure that tax officials know about every sale.

Getmantsev hopes that the bill will come into power in 2022 as planned, but acknowledges there is tremendous pressure to postpone or cancel it. There are ongoing street protests by people who say they are individual entrepreneurs who will be affected by the changes.

Getmantsev meets and speaks to them. He claims that smugglers fund protests but there are real entrepreneurs among them.

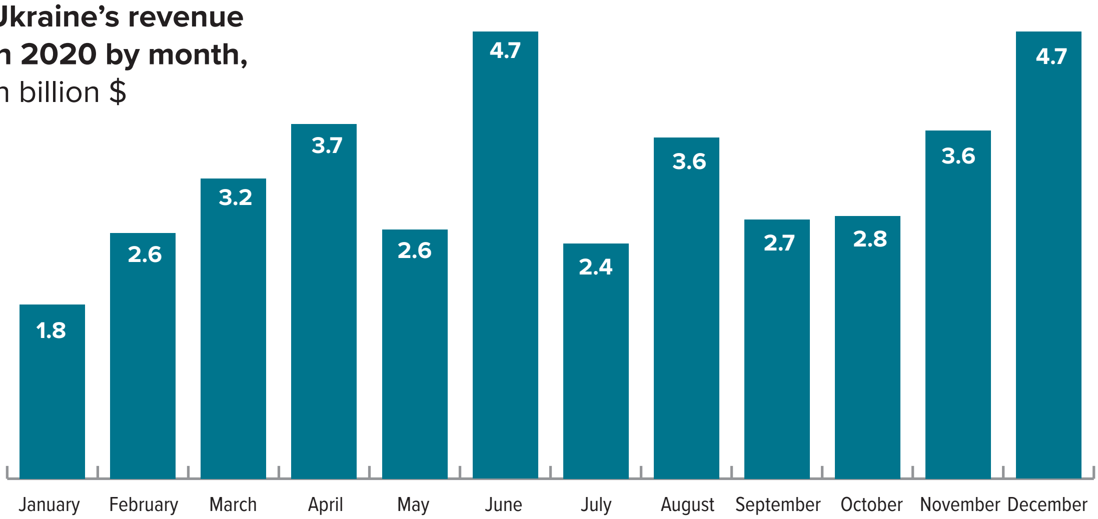
Opponents of fiscalization say it must be easier to stop smuggling at the border than track many thousands of small entrepreneurs that might be selling smuggled goods.

But Getmantsev says that it doesn't work that way. The reform of the Customs Office is underway, seeking to vet and replace many of its employees, but it alone won't fix the problem.

"Ukraine has the biggest market for smuggled goods in Europe," he says. "It's so easy to sell them. Even if we put a saint at the customs, he will be

In 2020, Ukraine collected $38.5 billion in revenue. Taxes secure over 79% of the state budget revenue.

Ukraine's revenue in 2020 by month, in billion $



Source: State Treasury Service

corrupt in a week — all because the demand for the smuggled goods is so huge."

Fiscalization must also help with halting the sale of bootleg alcohol. Today, it is freely sold online and no excise taxes are paid.

During the interview with the Kyiv Post, Getmantsev demonstrates a 10-liter carton of vodka that his aide ordered online. It cost only $12.70. Regular vodka costs several times more.

"I didn't risk trying it," Getmantsev says.

This vodka is usually made at the same factories that produce the legal stuff but no one pays the excise duty on it. It's not just found online. Even big supermarket chains sell bootleg vodka.

"There are 80,000 points where counterfeit vodka and cigarettes are sold," Getmantsev says.

He believes that the fact that such sales go on testifies to the ineffectiveness or corruption of the State Fiscal Service. This is why Getmantsev is very enthusiastic about his new project: He asks his followers on social media to email him tips about counterfeit alcohol and cigarettes.

In the first week, he got only five reports, but that was good enough to start. Now he wants to make them into examples — push the law enforcement and State Fiscal Service to act on the tips, then publish the results.

De-shadowing salaries

After completing the fiscalization reform and halting sales of smuggled and counterfeit goods, the time will come to plug another big hole in tax revenue: salaries.

It's unknown how many Ukrainians exactly receive salaries unofficially, in cash, but the number has to be very significant: According to the Tax Office, more than 4.1 million adult Ukrainians have not paid taxes in the last 10 years.

Among the rest, some work as "individual entrepreneurs" on contract with their employer, which cuts taxes significantly.

While tax evasion is the main reason for companies and people to go for unofficial hiring, there are others, according to Getmantsev. Young men avoiding military draft, employers seeking to be able to fine their employees, which they can't do legally, and employees wanting to receive their salaries in dollars, all choose to work in the informal sector.

"But all of it is now becoming a thing of the past," he says.

The practice of hiring employees as "entrepreneurs" is one of the things the government and Getmantsev's committee wants to end.

Many of Ukraine's 1.8 million "individual entrepreneurs" aren't entrepreneurs at all — they're hired staff. Paying staff via contracts between private entrepreneurs and the company comes with

Kostyantyn Chernichkin

Individual entrepreneurs march in downtown Kyiv demanding to rescind the law canceling the simplified tax system on Jan. 28, 2021.

a significant tax decrease. Companies pay over 41% of a regular employee's salary in taxes and usually just 5% for FOPs.

While this practice is common in Ukraine, Getmantsev has no tolerance for it, calling it tax evasion.

A bill drafted by the Economy Ministry aims to end mass hiring of entrepreneurs as employees. It lists seven criteria of a staff employee — if a contracted FOP fits at least three of them, they must be hired as a staffer.

At the same time, Getmantsev emphasizes that salaries logically should come last in the de-shadowing of the economy.

"While we have the black holes like illegal alcohol, tobacco, gambling, smuggling, and while most of the commerce remains in the shadow — whatever sophisticated regulations we'll do, much of the economy will remain in the shadows," he says. "That's why we now focus on plugging the chronic holes in our economy."

Finally changing Ukraine's outdated Labor Code is also in the plan.

"We will definitely pass a new labor code, but all our efforts to do so meet a colossal resistance of the unions and those who made a career in pretending to defend the rights of workers," Getmantsev said.

Another component is underway to stimulate salaries to come out of the shadow: A draft law that offers tax deductions for citizens who voluntarily file declarations. Getmantsev himself wanted declarations to be mandatory, but this is as far as the parliament would go.

If everything that is planned comes through, it can upend Ukraine's economy — and finally solve the issue of the "tragically low pensions" and low wages of teachers and doctors, Getmantsev says.

"In doing all this, the horizon is very far away," he adds. "The things we do now will bear fruit in a 5–7 years' time."

Kostyantyn Chernichkin

Vadym Melnyk heads the State Fiscal Service, which is slated for liquidation to make way for the new Economic Security Bureau in September 2021. For now, the State Fiscal Service is still the de-facto tax police.

State Fiscal Service boss Vadym Melnyk talks tax evasion, smuggling, Economic Security Bureau

By Natalia Datskevych datskevych@kyivpost.com

Vadym Melnyk, 49, met the Kyiv Post wearing a shirt with rolled-up sleeves and a Swiss watch, which, according to him, cost "only $800."

"I have nothing to hide and can explain the sources of my income," said Melnyk, who has been the head of the State Fiscal Service for the last six months.

For now, the State Fiscal Service is still the de facto tax police. However, the government has already decided to split it into separate tax and customs services. As a result, Melnyk's office, with its 3,900 employees — mainly investigators fighting tax evasion and smuggling — is undergoing active liquidation.

On Sept. 25, a new state body, the Bureau of Economic Security, will take over the functions of its predecessor.

"For the first time in the history of Ukraine we see the liquidation, not the reorganization of a state body," said Melnyk. "It's very serious."

Top scheme for tax evasion

In Ukraine, one thing remains constant: half of the nation's economy is in the shadows. Reducing it will mean cracking down on tax evasion and smuggling.

"This is exclusively our purview," Melnyk said.

Ukrainian tax evaders' favorite scheme is the illegal refund of the 20% value-added tax for exporters and importers, according to Melnyk. "This scheme provides the biggest opportunities for tax evasion," he said.

Grain traders are among the top violators. Thanks to a tax credit on exported goods, they can receive a net refund on VAT after export. Traders can use a multi-layered scheme to claim the refund without exporting their goods, the tax chief said.

Melnyk estimated that around 25% "or maybe even more" of Ukraine's grain producers dodge VAT through exports. "This is illegal VAT," said Melnyk.

The scheme is not just popular among those who deal in grain. It can be used on anything: bricks, cement, sand, metal, used cars or even toys.

When Melnyk took office in December, tax police started actively tracking suspicious invoices. "If we tackle this scheme, we will partially solve the problem of smuggled goods," he said.

The total value of VAT invoices that escaped the tax police's scrutiny declined from $142 million per month in December 2020 to the $100 million today. The state budget loses about $1.4 billion per year to this scheme.

Illegal spirits

Melnyk calls the illegal production and sale of excisable goods like spirits "incredibly brazen" — not just because it's breaking the law, but also because it damages people's health.

Buyers get bootleg booze via delivery companies Nova Poshta or UkrPoshta and can't track down the sellers online. This creates the risk of people trying to consume poisonous methylated spirits.

According to Melnyk, one liter of vodka, the most popular hard alcohol, costs $3.10 in supermarkets while some online stores sell the same vodka for $1. "If you pay all your taxes on one bottle of vodka, then it can't cost less than $2," said Melnyk.

In the first four months of 2021, tax police opened 383 smuggling cases, two-thirds of which involved illegal sale of spirits; some 140 websites were closed.

Even the excise stamp does not guarantee that the product is sold legally. In late March, tax police officers seized a batch of excise stamps, shipped from Turkey to Ukraine via the Chornomorsk seaport. If used, they could have helped evade up to $1.4 million in excise tax.

"In the store, products with such excise stamps will look like they are legally made," said Melnyk.

Illegal fuel

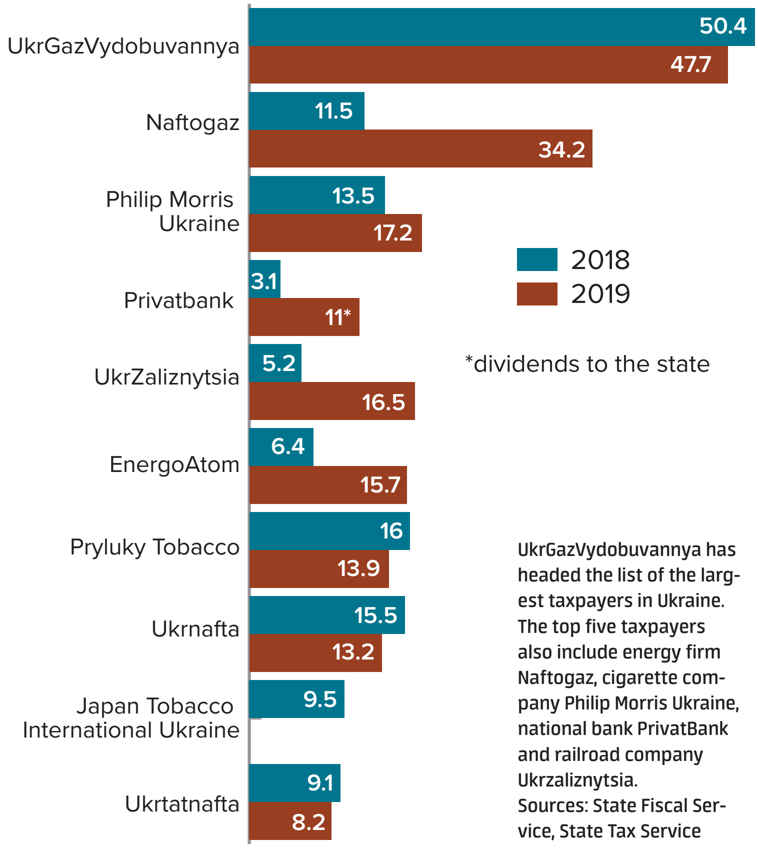
The same situation is happening in the fuel market. But while spirits are produced domestically, most fuel is exported, requiring a different scheme.

Some companies import solvents without excise duty, which the law allows. They add these solvents to a cheap type of gasoline, like A-92, and advertise the mixture as the higher-quality, more expensive A-95 fuel.

According to Melnyk, some of the country's best-known petrol station companies engage in this practice, adding that he can't name names because of an ongoing investigation. Over 100 gas stations involved in the investigation were forced to shut down.

It is hard for Melnyk to say whether the number of contraband goods in Ukraine has increased or decreased of late, but he is sure that work to stop it has "intensified."

Top taxpayers in Ukraine, in billion, Hr



UkrGazVydobuvannya has headed the list of the largest taxpayers in Ukraine. The top five taxpayers also include energy firm Naftogaz, cigarette company Philip Morris Ukraine, national bank PrivatBank and railroad company Ukrzaliznytsia.
Sources: State Fiscal Service, State Tax Service

Volodymyr Petrov

A couple browses the liquor aisle of a Velyka Kyshenya supermarket in Kyiv on March 27, 2020. One liter of vodka costs $3 in supermarkets while some online stores sell the same vodka for $1. The cheapest liquor is most likely bootleg.

"In the first four months of the year we have practically reached the annual indicators," he said.

The value of all the seized products illegally produced in Ukraine, including tobacco, reached $76 million in 2019 and $77 million in 2020. Since the beginning of 2021, $63 million in illegal goods has been seized.

On average, around 30–50% of all open cases end up in court, as opposed to the 1% that news agencies have previously reported, according to Melnyk. Still, most of the suspects escape justice due to "very high corruption risks."

Bribes range from $10,000 to $100,000, Melnyk said. Investigators make just $350 per month, on average.

"We have the lowest salaries (among state bodies), but we don't cry, we don't whine," he said, even though he as the head of the service feels "insane shame" for such paltry salaries.

Economic Security Bureau

With 4,000 new employees likely to work in two headquarters in Kyiv, the new government agency that will substitute the current tax police will use digital tools to achieve better results. "That is how Europe works, we need to strive for this," Melnyk said.

Salaries in the bureau will start from $1,100 a month. He believes better salaries won't eradicate corruption, but fewer people will leave the state body.

When Melnyk hears news that a tax police official owns a luxury house or a fancy car, Melnyk gets angry. "There is no place for such people in the new Bureau for Economic Safety," he said.

Meanwhile, Melnyk said that nearly half the State Fiscal Service's current staff will try for a job in the new bureau. But there is one hidden danger. Melnyk is afraid that those who won't fit into the new service may start working for shadow businesses because "they know how the system works from the inside."

While expressing concerns about the lack of a commission to select a new head, he said he plans to participate in the competition for the head of the bureau.

"A soldier who does not dream of becoming a general is a bad soldier," said Melnyk.

IN PARTNERSHIP WITH DARNITSA

Kostyantyn Chernichkin

An employee of the Darnitsa pharmaceutical company on May 11, 2021. Last year, producers sold fewer medicines for respiratory and gastrointestinal ailments because people wear face masks and pay more attention to keeping their hands clean.

Pharmaceutical sales reach $3.4 billion; producers call for limited antibiotic use

By Denys Krasnikov krasnikov@kyivpost.com

Pharmaceutical companies are doing well, despite the turbulence caused by the global economic crisis.

Medication sales reached $4.2 billion in 2020, increasing by 4.7% year over year, even though the actual number of drugs sold went down. Producers sold more prescription drugs that are usually more expensive.

Ukrainians tend to put more trust in imported drugs, which is borne out in statistics: 64% of the drugs sold in Ukraine are foreign. Ukraine imports mostly from Germany, India and France.

The industry saw waves in demand during each of the three nationwide lockdowns in 2020–2021. The first one in spring 2020 hit the hardest: as businesses closed their doors, people stayed home and rarely visited pharmacies.

For some time, according to Proxima Research, Ukrainian pharmaceutical firms started losing money for the first time in their history.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But the market bounced back quickly after the lockdown was lifted. By August, the sales had levelled out.

Since the start of the pandemic, producers sold fewer medicines for respiratory and gastrointestinal ailments because people wear face masks and pay more attention to keeping their hands clean.

The demand for medicines used in neurology and cardiology hasn't changed.

There was more demand for what pharmas call "the COVID portfolio": antibiotics, vitamins C and D, zinc, and low-molecular-weight heparin (LMWH; a class of anticoagulant medications used in the prevention of blood clots) — all prescribed in Ukraine to treat COVID-19 and pneumonia.

The bestseller in Ukraine is Xarelto, a medicine used to treat blood clots.

People were also buying medications without doctors' approval. Uncontrolled consumption led to the deficit of LMWH and zinc.

Doctors often prescribed antibiotics to treat COVID-19 or comorbid illnesses. Seeing this, patients' friends and relatives often bought antibiotics in droves to self-medicate at home.

Pharmaceutical companies stressed that uncontrolled consumption of antibiotics could cause microbes to develop resistance to the drug, which would make it harder to treat these patients in the future. Infection can't be destroyed by antibiotics anymore.

The chairman of the executive board of Darnitsa Group, Dmytro Shymkiv, says the demand for antibiotics has been "enormous." At one point, key pharmaceutical firms even asked the Health Ministry to regulate their use in Ukraine.

"Even the doctors who had never prescribed antibiotics, started administering them," Shymkiv says. "They just got scared."

Antibiotics work only against bacteria, not viruses. According to the World Health Organization, antibiotics should not be used for prevention or treatment.

Even so, health officials have done nothing to regulate these drugs.

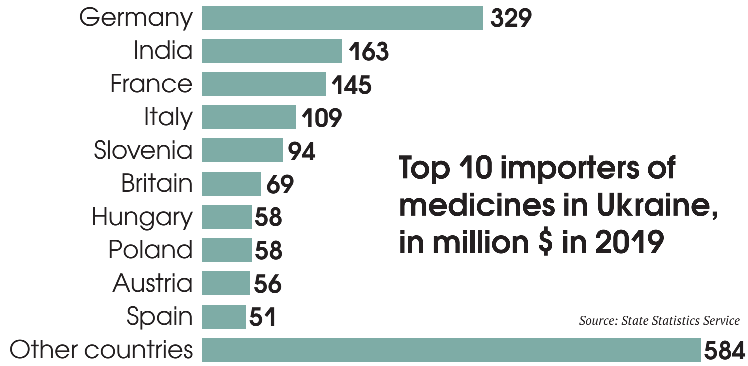
Despite the high demand for the "COVID portfolio" and the national currency fluctuation that made it more expensive to import raw materials, the companies resisted raising drug prices.

The industry remains highly competitive: the 10 largest companies control only 30.8% of the market, according to news website Apteka.

Farmak is the biggest pharmaceutical on the market with a 5.6% share. Darnitsa is last year's runner-up, with a 3.6% share. Israeli pharmaceutical Teva is in close third place with 3.5%.

Overall, despite the strict lockdown and quarantine measures that hampered the Ukrainian economy, the industry ended the year with positive results. Experts believe the industry will grow even more in 2021 — by 6.5–11.4%.

Top 10 importers of medicines in Ukraine, in million $ in 2019

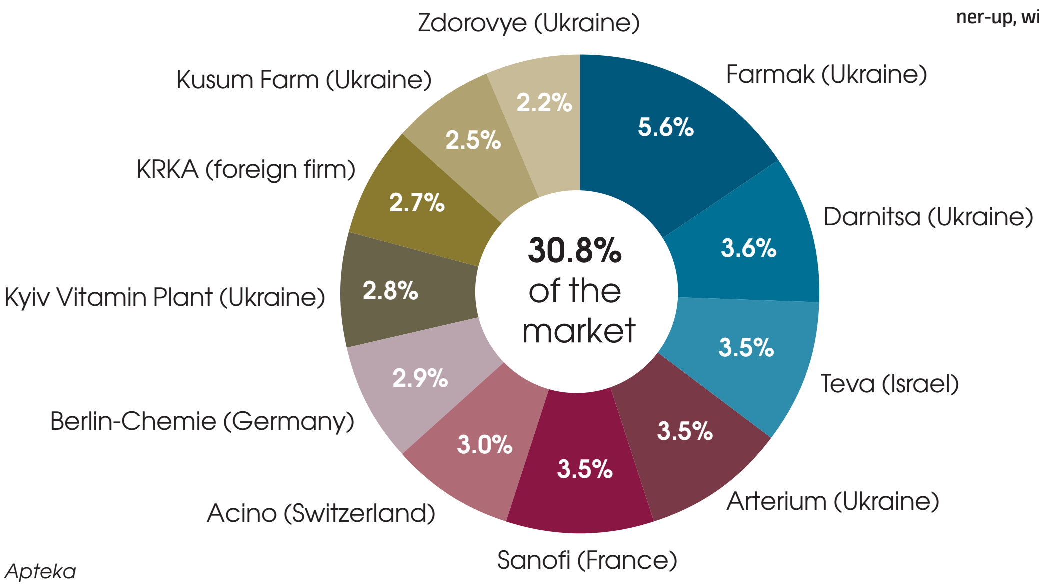


Source: State Statistics Service

Most imported drugs in Ukraine come from Germany. Ukraine's bestseller drug Xarelto, for example, is sold by German pharmaceutical firm Bayer.

Farmak is the largest pharmaceutical firm on the market with a 5.6% share. Darnitsa is last year's runner-up, with a 3.6% share.

Top 10 companies on market



Source: Apteka

Kostyantyn Chernichkin

Dmytro Shymkiv, chairman of the executive board of Darnitsa Group, talks with a colleague on May 11, 2021. Darnitsa is an example of a Soviet enterprise that evolved into a modern company, much like its main competitor, the 95-year-old Farmak.

Domestic pharma giant Darnitsa ends turbulent 2020 as 3rd most valuable brand, after Kyivstar, Rozetka

By Denys Krasnikov krasnikov@kyivpost.com

Taking up the territory equivalent to 10 football pitches at the edge of Kyiv, the Darnitsa plant produces perhaps the most recognizable medication in Ukraine — Paracetamol and Citramon.

Darnitsa has always focused on the domestic market, where it sells 95% of its medication. Today most Ukrainians know the brand — its green "D" logo and affordable prices for generic drugs.

The 2020, dominated by the pandemic, made the company's position even stronger. Valued at $187 million, $8 million more than a year before, Darnitsa is now the third most expensive brand in the country, after mobile operator Kyivstar and retailer Rozetka, according to the Korrespondent magazine.

The chairman of the executive board of Darnitsa Group, Dmytro Shymkiv, 45, says the company grew due to higher demand for some of its products, strong teamwork and innovations.

Recalling 2020, he says, "It was like balancing on a piece of rope, while also trying to move the business on," he says. "When we talk about pandemics or just about any crisis, a company needs to move on. If we stop, we die."

Whatever it was, the innovation drive or the sober crisis management, it seems to have worked: the company added 10 new medications to its portfolio of 210 brands and significantly grew its market share.

Today Darnitsa ranks second among pharmas in Ukraine, taking up a 3.6% share of the highly competitive market, where the top 10 companies control just 30%. The leader Farmak has a 5.6% share.

All eyes on health care

Darnitsa is an example of a Soviet enterprise that evolved into a modern company, much like its main competitor, the 95-year-old Farmak.

When the COVID-19 pandemic hit Ukraine in March 2020, demand for medication jumped by 35%. While more people got sick, there were also those who just went to pharmacies to stock up, refreshing their first aid kits for possible emergencies.

Sales of one of Darnitsa's core medication Paracetamol, which is used to treat fever and mild to moderate pain, went up by five times in March 2020, but the company didn't raise the price from $0.54 per box. It also kept prices low for its other two bestsellers: the painkiller Citramon ($0.30) and Captopres, used to treat high blood pressure. ($2).

A month later, however, demand went down by 20%. The pharmaceutical had to perform a delicate balancing act, ensuring demand was satisfied in March while also lowering production in April to avoid overstocking.

"We needed to balance the whole year, trying to foresee things," Shymkiv says.

Apart from balancing production, the company also needed to keep imports of raw materials from Europe, India and the Middle East steady while its employees were coming with COVID-19. Over the year, 181 out of the total 1,016 employees got over the coronavirus.

"Uncertainty of production, of consumption, of manpower, of the situation in the country — we needed to use this uncertainty as a business opportunity and not lose the positions we had in society and business," he says.

Courtesy of Darnitsa

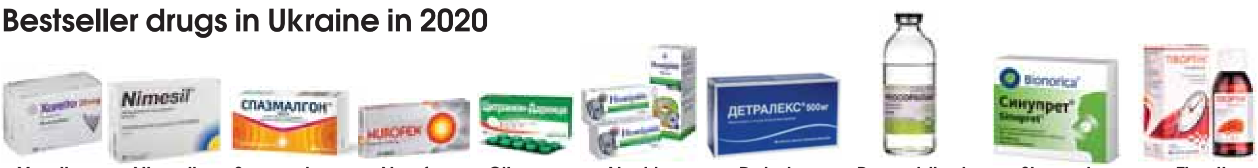
The company ended the financial year having $130 million in net profit, a $10 million increase compared to 2019.

Pharma is new IT

Before joining Darnitsa, Shymkiv worked as deputy head of the President's Administration under

In 2020, there was more demand for what pharmas call "the COVID portfolio": antibiotics, vitamins C and D, zinc, and low-molecular-weight heparin.

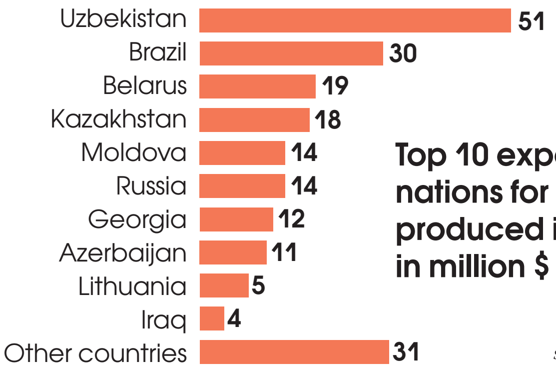
Bestseller drugs in Ukraine in 2020



Xarelto	Nimesil	Spazmalgon	Nurofen	Citramon	Novirin	Detralex	Reosorbilact	Sinupret	Tivortin
prevents blood clots	painkiller	painkiller	painkiller	painkiller	antiviral drug	treats varicose veins	solution for infusions	treats respiratory infections	prevents blood clots

Source: Apteka

Ukrainians spent $4.2 billion on drugs in 2020, which is 4.7% more compared to 2019. 36% from this sum was spent on drugs produced in Ukraine and 64% — on those imported in the country from abroad.



Top 10 export destinations for medicines produced in Ukraine, in million $ in 2019

Source: State Statistics Service

Darnitsa sells only 5% of its medical products abroad, while its rival Farmak has sales in the Eureoan Union, Uzbekistan, Kazakhstan, Belarus and Kyrgyzstan.

President Petro Poroshenko. Before that, he headed Ukraine's office of U.S. tech company Microsoft for seven and a half years.

Both jobs helped Shymkiv manage Darnitsa, where he has been since 2018. The Microsoft experience taught Shymkiv to bring innovation to an otherwise conservative industry, while the four-year experience in politics gave him an understanding of how the government communicates with business.

"I know what's possible and what's not," he says.

But his tech savvy is more on display than his political prowess, even during a quick tour at the Darnitsa plant: most computers run licensed software by Microsoft, Office 365. Much of internal communication happens online, through Microsoft's cloud service Azure.

Apart from using software for communication, the company has harnessed technologies to save on utilities and collect analytics about sales and rivals, as well as for logistics. Darnitsia's 9-story warehouse is fully run by three robots.

At the same time, Shymkiv admits, most people in pharma are quite conservative. "The industry itself requires conservatism. We need to preserve reliability, quality and trust of the consumer."

The average age of the employees at Darnitsa is 40 years old.

> **The risk of another pandemic is quite high. In 3–5 years, what will we do? Will we queue (for vaccine) again?**
>
> — Dmytro Shymkiv

Producing vaccines

Launching the production of vaccines is expensive. In December 2020, Chinese company Sinovac Biotech said it would invest about $500 million to increase its capacity to manufacture its flagship CoronaVac COVID-19 vaccine.

It is also a long and complex procedure, according to Shymkiv. A lot of time is eaten up by quality control: a vaccine requires hundreds of tests. It may take from 12 to 36 months to even start shipping ready-made vaccines, let alone building and certifying a plant and producing the first batch.

There also needs to be a buyer. Ukraine's government must promise to buy the vaccines. It's always going to be cheaper to import vaccines from countries like India or China, because they already have the facilities and produce them in great volumes. Buying Ukrainian must be a political decision to sacrifice more of the budget to support local production.

Right now, getting enough COVID-19 vaccine to meet the world's needs isn't a question of patents, it's a question of capacity, Shymkiv says.

Making vaccines takes special plants and technologies. Darnitsa is ready to invest $20 million in a plant like this. But without guaranteed orders it will be just "an expensive hobby." It will also take more than one year to build the facilities.

There can be no talk of developing new COVID-19 vaccines in Ukraine, Shymkiv says. But Ukraine needs to start thinking about the future.

"The risk of another pandemic is quite high," Shymkiv says. "In 3–5 years, what will we do? Will we queue again?"

In February 2021, Deputy Health Minister Viktor Liashko, who has since become the health minister, said the ministry developed a plan to revive production of vaccines in Ukraine.

However, it hasn't been approved by the government, and according to experts, the document suggests no concrete steps. ■

Courtesy of Darnitsa

An employee of Ukrainian pharmaceutical company Darnitsa works at the company's facilities. Darnitsa's plant takes up the territory equivalent to 10 football pitches at the edge of Kyiv.

Dental tourists flock to Ukraine to fix their teeth at affordable prices

A patient from the United Kingdom receives dental treatment at Porcelain Clinic in central Kyiv on April 23, 2021.

Volodymyr Petrov

By Asami Terajima terajima@kyivpost.com
and Natalia Datskevych datskevych@kyivpost.com

A new chapter in one's life can begin with a beautiful smile.

At least that's the hope for Arturas Kadys, 57, a truck driver from the United Kingdom who came to one of Kyiv's dental clinics for a major procedure in early April.

"I've had dental problems all my life," said Kadys, who is recently divorced. "I want to have healthy teeth and to live a new life."

For him and thousands of other dental tourists visiting Ukraine, it is an option to get dental implants, jaw prosthetics, braces or remove wisdom teeth at affordable prices.

According to Violetta Yanyshevska, chairwoman of Ukrainian Association of Medical Tourism, out of 65,000 foreign patients who annually visit Ukraine for treatment, 40% are dental tourists.

They mostly come from the UK and other Western European countries like Italy, Spain, Sweden, and France. Others come from more distant countries — the United States, Canada and Australia.

"Even with the travel costs and monthly accommodation in Ukraine, treatment will be cheaper than in their own country," said Yanyshevska, who also mentioned that they are immigrants from post-Soviet countries.

Tempting offer

For many Ukrainians, dental treatment in the country's most prestigious clinics will break the bank. For foreigners, it's a way to save a lot of money.

The price for one tooth implant in Ukraine's dental clinics ranges from $500 to $1,200. In Israel, the price for the same implant just starts from $980 while in the U.S. it's at least $3,000.

For one metal-ceramic composite crown, patients pay around $250 in Ukraine, half of what they'd pay in Israel and a tenth of what they'd pay the U.S.

Braces start at $400 in Ukraine. In Hungary, they start at $740 and in the U.S. the cost will be around $5,000-$6,000.

Treating one root canal in Ukraine costs even less than in Turkey, the country's biggest competitor for dental tourism — $25 versus $45. In U. S. clinics, the same work goes for $400 or higher.

But the dental tourists aren't here to fix minor issues. They come to Ukraine to get major work done.

According to Yanyshevska, nearly half of them come to get jaw prosthetics and every fifth comes to get implants. The rest get treatments for tooth decay, get their teeth straightened or get veneers, thin tooth-colored shells applied to the front of the teeth to make them look stunning.

"No one will go for one root canal filling because you still need to pay for the ticket and to stay in Ukraine," said Yanyshevska.

For example, the cost of "all-on-6" dental implants procedure, referring to the number of implants that are placed in the mouth as a base for the prosthetic dental arch, will cost around £10,000 in Astradent, a dental chain with 12 clinics across Kyiv.

"This is a complete restoration of the upper and lower jaw with beautiful ceramic teeth," said Kateryna Skuratovska, international patients care manager at Astradent.

"In the U.K., it would cost £15,000 just for one jaw," she said.

Plus, many clinics in Ukraine can offer "treatment while sleeping," when dentists use general anesthesia for complicated cases or when a patient has a great fear, like extraction of wisdom teeth.

According to Yaroslav Pavlenko, a dental surgeon and co-founder of Ukrainian-Swiss dental clinic Porcelain, it's hard to find a clinic in Western European countries that will allow patients to remove wisdom teeth under general anesthesia.

Only large hospitals can do it while small clinics do not have special equipment or required for the manipulation licenses. In Porcelain, up to 90% of dental surgeries are performed this way.

"Many of our patients choose 'sleeping' during surgery," said Pavlenko. "It is completely safe if the doctor follows the (medical) protocol."

Haniya Dar, 43, a consultant on commercial contracts from the UK, was one such patient.

"I was so scared that I didn't want to do it in the UK," Dar told the Kyiv Post.

Her dentist in London was not willing to put Dar on medical sleep for the wisdom teeth removal.

"It was an opportunity to combine it with a holiday and see my friends," said Dar, who previously lived in Kyiv for a while.

Cheaper, but not worse

The huge difference in prices for dental services here compared to developed countries reflects the economic well-being of Ukraine but not its dentists' skill and expertise.

Ukrainian dentists use the same methods as their foreign colleagues, they learn new skills at international congresses, undergo intern-

Dentistry attracts an increasing number of western tourists to Ukraine every year, including from the U.S. Foreigners are attracted by cheap prices and the local specialists' quality of service.

Kostyantyn Chernichkin

A dentist from the Astradent clinic in Kyiv, examines Arturas Kadys, a medical tourist from the United Kingdom, on April 22, 2021. Driven by cheaper prices and high quality of services, nearly 40% of all medical tourists visiting Ukraine come to fix their dental problems.

> **The level of dentistry in Ukraine has become very high.**
>
> — Yaroslav Pavlenko, dental surgeon

ships and "constantly improve their knowledge," said Yanyshevska.

According to Pavlenko, competition among private dental clinics gave Ukrainian dentists "a very good opportunity" to improve their services.

Clinics' profit is invested in expensive high-tech equipment or further employee training.

"The level of dentistry in Ukraine has become very high," said Pavlenko.

The surgeon said Ukraine's dental standards are sometimes even higher than in some Western European countries, "for sure higher than the United Kingdom, maybe France and even Germany."

Moreover, Ukrainian dental clinics often use the same implants and drugs for anesthesia as clinics in richer countries.

In the Astradent clinic, for instance, tooth implants are produced by the South Korean MegaGen Corporation.

"It doesn't matter whether this implant goes to Ukraine, Poland or Turkey. The implant will be the same if it's the same brand," said Skuratovska.

Business expansion

When Astradent launched its program for foreign dental tourists in 2018, it was a strategic move to expand the business and remove the language barrier, which the clinic previously had.

Currently, the clinic serves 120–130 dental tourists per month via its special department, twice more than three years ago.

Dental tourists who want to get treated at Astradent, need to register on the website of the dentistry or give it a call prior to the visit.

According to Skuratovska, a manager meets such tourists in the airport, arranges a meeting with the doctor, and explains all nuances of procedures during the conversation with the doctor.

"We fully accompany the tourists during the visit," said Skuratovska, adding that the patient pays only the cost of the treatment.

In her most memorable case she told about one tourist, who came to Ukraine to fix his "dental disaster."

The patient — a big fan of cycling — crashed into a car during the race. His insurance covered only part of dental services related to surgical intervention.

"He knocked out his upper and lower jaw," said Skuratovska. "We completely restored his smile, brought him back to life." ■

IN PARTNERSHIP WITH eleks®

Oleg Petrasiuk

People work at the coworking Creative State of Arsenal in Kyiv on March 5, 2021. Coworkings are popular among Ukrainian tech specialists who are used to working in modern offices and develop services for big overseas clients.

Tech industry transforms Ukraine, attracts new talent with decent pay

By Daryna Antoniuk antoniuk@kyivpost.com

Jobs in information technology are highly sought after in Ukraine. Local techies work in modern offices and develop services for big overseas clients, some earning enough to afford to work remotely from under palm trees in Bali or Thailand.

Today, Ukraine has over 212,000 tech specialists, 11% of the country's 1.9 million individual entrepreneurs. Over 16,000 tech students graduate from Ukrainian universities every year, which is still not considered enough. That number is expected to grow by 23% in 2024.

Ukraine encourages local undergraduates to study computer science because the country's tech industry is thirsty for talents: in the second half of 2020 alone, Ukraine's 50 biggest tech firms, including EPAM, SoftServe, GlobalLogic and Luxoft hired nearly 8,000 IT specialists.

Ukrainians can earn $2,500 a month working for a tech company, paying a mere 5% income tax. In addition, they can choose any field they like: e-commerce, fintech, game development, education or entertainment — technology is in demand everywhere.

As Ukraine's tech industry continues to grow, it is becoming more mature and progressive, experts say. Twenty years ago, the country's IT sector consisted of just a few firms paving their way through many economic downturns without the government's support.

Now, the industry secures over $5 billion in exports and generates nearly $588 million in taxes. The tech sector grew by 20% even amid the pandemic while other businesses suffered. Technology helped Ukraine survive the coronavirus crisis and the government seems to be interested in helping the tech industry to grow even more.

In 2020, Ukraine's Ministry of Digital Transformation introduced a project called Diia City, an economic zone with taxation, legislation and employment benefits tailored for local and foreign tech firms. Ukrainian techies are suspicious of the project: They overtly criticize the bill and ask to amend it, saying "the government shouldn't change a system that works."

In April, the parliament submitted an improved bill on Diia City in the first reading and now has to amend a tax code to adopt other novelties offered by the Ministry of Digital Transformation.

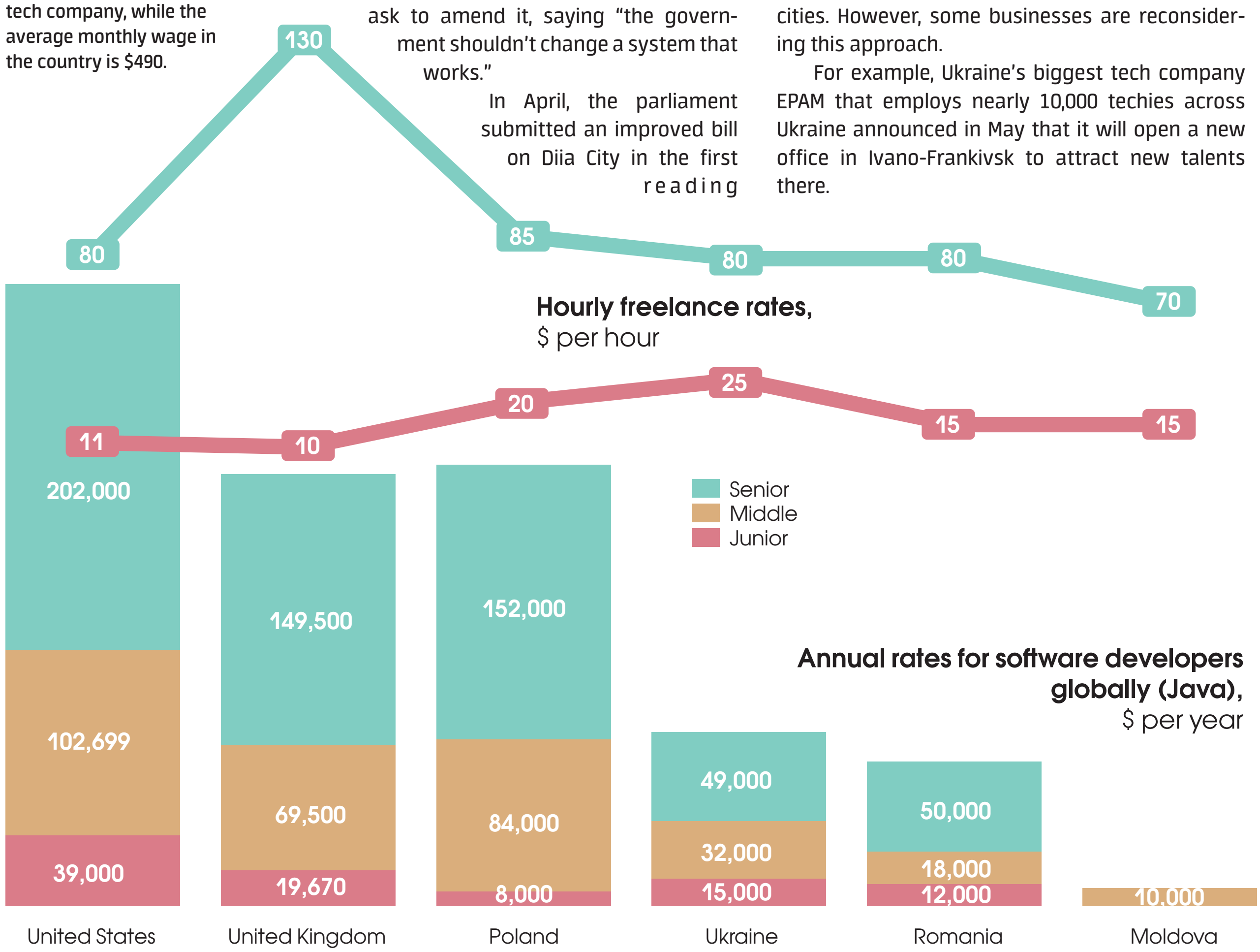
And while a fully digital Ukraine has a long way to go — a new ecosystem for tech specialists is emerging in Ukraine. For years, Kyiv, Kharkiv and Lviv were the main venues for tech specialists — nearly 70% of Ukraine's techies still work there. But smaller towns are becoming popular too because they are cheaper, more ecological and are doing their best to prevent brain drain.

For example, Ivano-Frankivsk, a city of 238,000 people nearly 600 kilometers west of Kyiv was named the best city to do business in 2020, according to Forbes. In a survey by tech media Dou, Ukrainian tech specialists called Ivano-Frankivsk the most comfortable city to live in, along with Lviv and Vinnytsa.

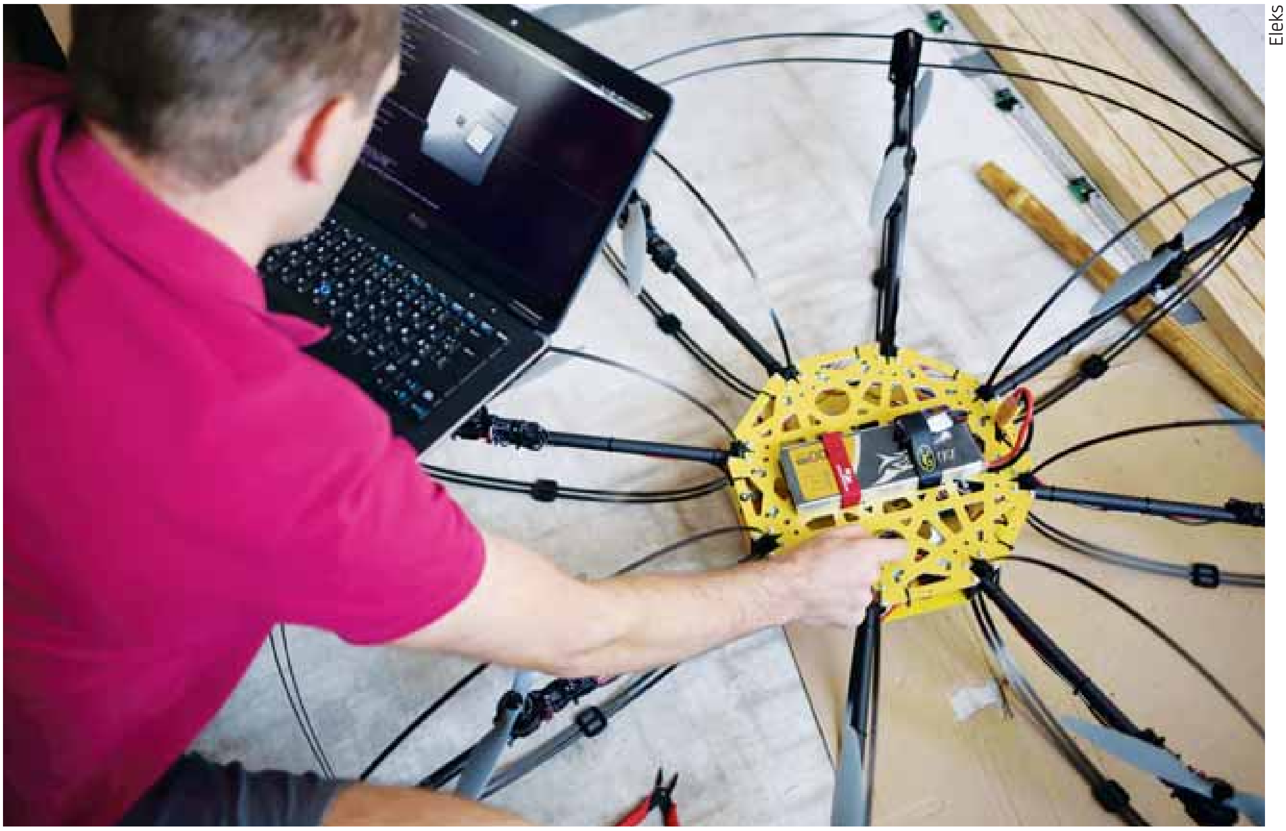
According to Dou, nearly one-third of tech specialists in Kyiv are originally from small towns across Ukraine. Techies flock to the capital or other big cities because that is where the country's 100 research and development centers are located and the market of startups is thriving. For tech firms, it is easier to find clients and new specialists in big cities. However, some businesses are reconsidering this approach.

For example, Ukraine's biggest tech company EPAM that employs nearly 10,000 techies across Ukraine announced in May that it will open a new office in Ivano-Frankivsk to attract new talents there.

Ukrainians can earn $2,500 a month working for a tech company, while the average monthly wage in the country is $490.



Sources: YouTeam, Upwork


Eleks

Another trend that is transforming Ukraine's tech environment is the focus on products rather than services. According to Dou, the share of product companies grew from 28% to 35% in 2020.

Ukraine is still the best outsourcing destination in Eastern Europe with 11 outsourcing tech firms, including Ciklum, Eleks, Intellias and N-iX, all listed among the best in the world.

But if more companies start selling and developing their products within the country, it will make Ukraine more innovative and competitive, experts said.

Today, Ukrainian tech companies and startups attract investment from the U.S. or Europe and sell their products in the foreign markets. Young startups are reluctant to grow in Ukraine because of poor legislation and a poor investment climate that can't afford to invest in tech.

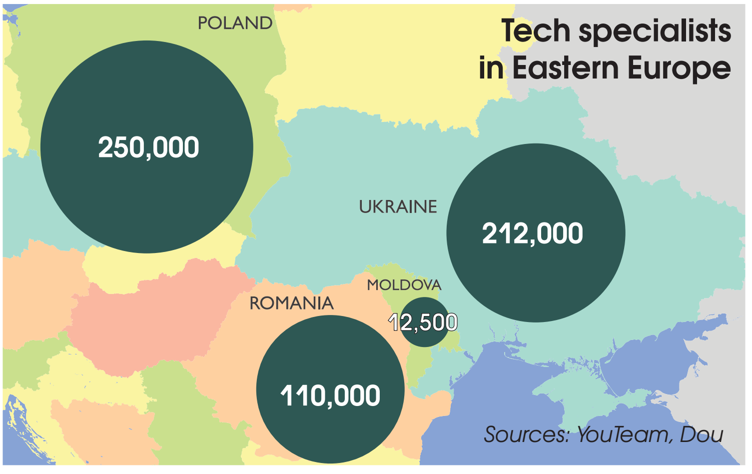
To change that, Ukraine founded a startup fund that awards grants ranging from $25,000 to $50,000 to local tech entrepreneurs. This money supports them at an early stage, while the ideas are still half-baked or in need of financing to take off.

But Ukrainian investors can't compete with foreign funds. Last year, Ukraine-founded startups attracted $571 million of investment — 80% of that money came from foreign investors.

Ukraine boasts many local startups, including Grammarly, People.ai, and GitLab, valued at $1 billion, but they all are registered in the U.S. where they pay taxes.

Many big Ukraine-founded tech companies support the local market and try to improve its reputation. But, according to them, Ukraine needs more money, better laws and less bureaucracy to thrive. ■

Ukraine is one of the top outsourcing destinations in Eastern Europe, but many businesses have started to develop and sell products within the country. The share of product companies in Ukraine grew from 28% to 35% in 2020.



Today, Ukraine has over 212,000 tech specialists, or 11% of the country's 1.9 million individual entrepreneurs. Over 16,000 tech students graduate from Ukrainian universities every year.

ELEKS: Building Ukraine's world-leading IT company

From humble beginnings thirty years ago, software outsourcing firm ELEKS has gone on to become a key player on the global stage. To mark three decades in business, ELEKS' founder Oleksiy Skrypnyk and CEO Andriy Krupa offer their insights on the company's hard-won success.

ABOUT US

600+
end-to-end solutions delivered

90%
of clients do more than one project with us

57
Net Promoter Score (NPS)

30
years of experience

If you need a partner of choice for your business, contact us at **eleks.com**

Oleksiy O. Skrypnyk
Co-founder

Andriy Krupa
CEO

What is the secret of your success?

In Skrypnyk's eyes, ELEKS is built on its people. *"I believe that what sets ELEKS apart is the dedication of our teams and our willingness to go to any length to find the right solution for our clients. It is our people who have made us the success that we are today".*

According to Krupa, ELEKS wanted to be a company that could foster mutually beneficial growth partnerships with its clients and, together, take on complex projects. It's this people-centric approach—to both clients and colleagues—that distinguishes it from its competitors.

Skrypnyk elaborates, *"back in the early 2000s, we started restructuring to place the best people in the most prominent roles. My father had been our bookkeeper and administrative director until we hired professionals to fulfil those roles. From there, we just kept bringing in more of the right people. I understood that the biggest limitation for a company was the people managing it".*

Finding and retaining talent is ELEKS' top priority. It's passionate about creating growth opportunities that challenge the status quo and enhancing its project portfolio with boundary-pushing collaborations.

Krupa highlights a corporate startup incubator that the company is working on to showcase and develop ideas from senior talent. And there is a drive to expand career opportunities, nurture talent and broaden the skill set of all employees.

He states, ***"if you take good care of people, they will take good care of your company".***

In March 2013, Ukraine ranked fourth in the world in terms of home-grown certified IT professionals. Fast-forward to the present day, and the country is now hailed as one of the world's leading exporters of IT services—growing, in fact, by an unprecedented 20% during the COVID-19 crisis.

What was it like to launch one of the world's leading outsourcing businesses in 1991?

The '90s was a tricky time for Ukraine and a really challenging time to go into business. We had to find a way to become stable during this turbulence, so we started working directly with our customers. We evolved our business model to become an outsourcing partner, and it's because of that, things really started to go from strength to strength for us.

How did ELEKS grow to become an industry leader?

There was a mindset shift within the business, whereby we switched to become a true client partner. We started working collaboratively with, instead of for, our customers. I think this is one of the key reasons we're now considered a top global outsourcing business, counting many Fortune 500 companies among our clientele.

What is the best advice you've received throughout your career with ELEKS?

It was probably the simple statement: *"You're still Alex"*, meaning that, although we were growing, we were still just a group of friends building software together and ought to keep our feet on the ground. Even now, we're still a group of friends—albeit more than 1,600 of us and counting—doing what we are most passionate about.

What has been your most exciting project to date?

R&D is at the heart of everything we do, and we've been fortunate to have the opportunity to develop so many exciting projects. One of the most memorable was Luftronix, a project ELEKS partnered on to commercialise high-precision autonomous navigation for drone-based scans of large aircraft. The idea originated from an engineer's fascination with drones and evolved into a commercial solution that has caught the attention of major aircraft manufacturers. In 2020, MAUtechnic, Ukraine International Airlines (UIA) and Luftronix, Inc. collaboratively conducted drone-based scans of UIA's Boeing 737-800 aircraft in Kyiv.

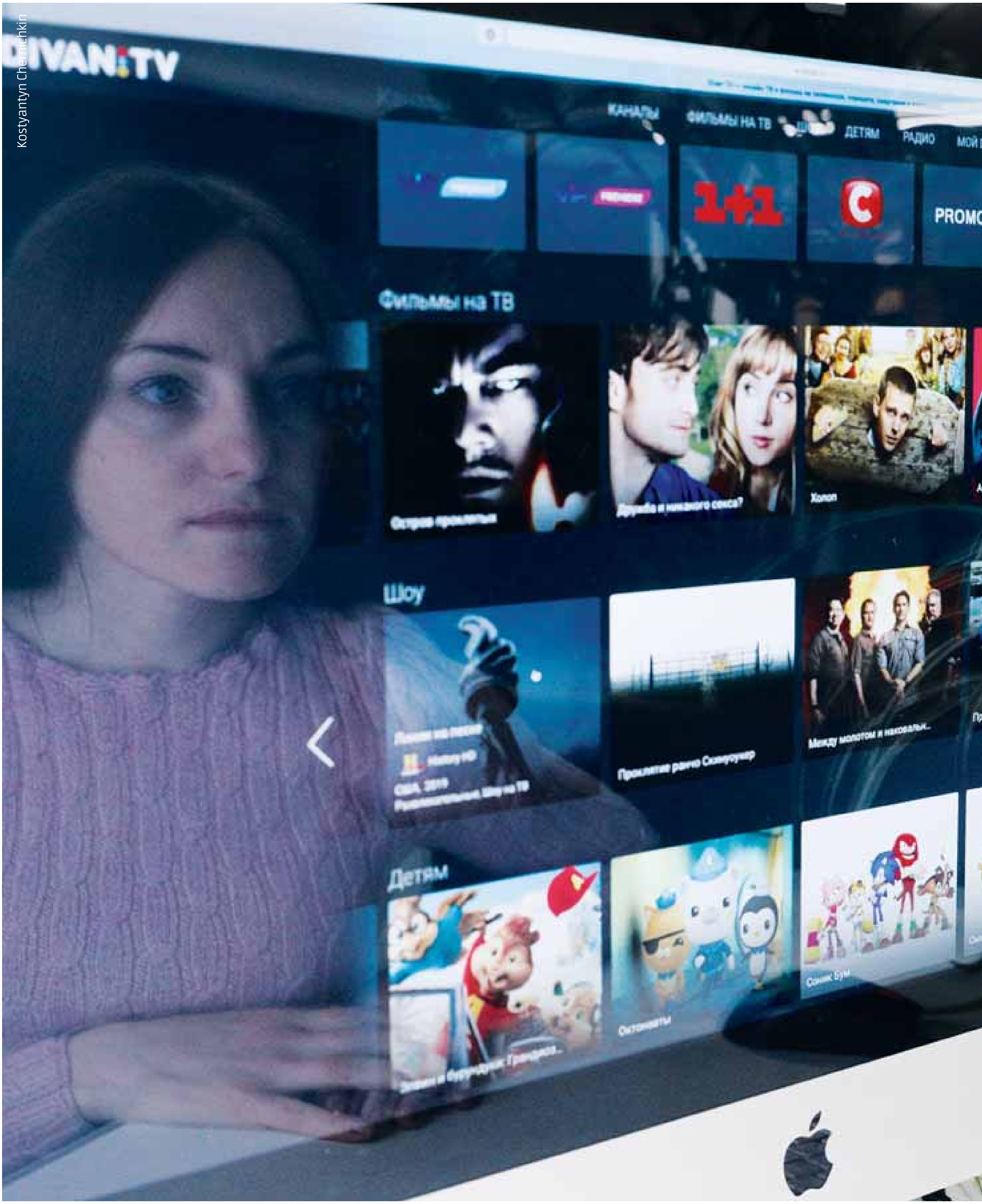
What are some of the biggest challenges for ELEKS right now?

I'd say it's finding the right people to manage the company. That's why ELEKS is now focused on sourcing the best people from around the world, including Ukraine. We're seeking the most elite IT professionals and, fundamentally, code writers from across the globe—going straight to the source so that we can write superior software.

As a global company, what lessons are you learning from your clients?

It's been a steep learning curve. We have quickly had to educate ourselves, not only in the small cultural nuances but also in the differing expectations of the various global markets. And it's a continuous education. What's the difference between working in Egypt, Saudi Arabia or the Arab Emirates, for example? Then there's Japan, an entirely different place altogether. But it gives us great joy to become fluent in these markets.

With the digital landscape evolving at a rate of knots, the future looks bright for Ukraine's IT sector, and ELEKS will continue to lead the way for its peers.



Kostyantyn Chernichkin

Ukraine may be Europe's last promised land for pay TV

A viewer browses the catalog of the streaming platform Divan.tv. Tech entrepreneurs believe Ukrainians' viewing habits have changed, and this will boost the sector's profit tenfold in years to come.

By Alexander Query query@kyivpost.com

After a decade of stagnation due to cable TV's monopoly, Ukrainian pay TV platforms finally had their year.

During the quarantine lockdowns, a growing number of people switched to watching TV shows on their computers, bypassing cable and its tedious ads. This was good news for pay TV platforms, also known as over-the-top (OTT) services, which allow paid subscribers to watch the shows they want without ads.

Yet, Ukrainian pay TV platforms can't compete with international players like Netflix. They had to adapt to the local market, where many consumers still prefer to watch pirated movies in Russian or Ukrainian for free.

From providing exclusive local TV content to dubbing Hollywood productions, platforms are catching up to attract a growing number of former cable TV users.

But piracy is a massive obstacle to the development of pay TV in Ukraine, Aleksandr Rezunov, director of Sweet.tv, told the Kyiv Post.

"Piracy seriously affects streaming services, especially when it comes to buying exclusive content," he said.

Fighting piracy

Pay TV platforms offer a simple subscription model, which is the key to their success.

They get their revenues from subscribers. If the viewer doesn't pay for a subscription to watch a film, there will be ads.

If the viewer pays for a subscription, they receive the content without ads. The viewer can also pay for one movie at a time without buying a subscription.

Ukrainian pay TV platforms, including Divan.tv and Sweet.tv, expect their number of consumers to jump from less than a million households in 2020 to 2.3 million in 2021.

This represents half of the roughly 5 million TV viewers in the country, but OTT platforms need to ensure a certain level of quality content to tackle piracy.

Piracy challenges pay TV platforms to offer better content to their users at an affordable price, Rezunov said.

"It's a good challenge to get people to pay for what they watch, if they want to get quality content of course," he said.

Andrey Kolodyuk, co-founder and owner of pay TV platform Divan.tv, echoed this statement to the Kyiv Post.

The average cost of a subscription is up to $3 per month in Ukraine, an affordable rate for hundreds of TV channels and thousands of ad-free movies, he said.

"Why hack bad quality content when you can afford to watch better quality?" he asked.

For example, Sweet.tv extended its catalog with the 'Hollywood in Ukrainian' project, which provides Hollywood films dubbed in Ukrainian to its subscribers, so they don't go looking for a worse-quality version of the same content on pirate sites.

That's how Sweet.tv became the first Ukrainian streaming service to sign direct contracts with big U.S. studios including Disney, Paramount, Universal and Sony to adapt their content for the Ukrainian market.

"It was complicated because Hollywood film studios prefer to work with larger markets," Rezunov said.

Still, the price of exclusive content is high, Rezunov said, and this investment doesn't pay off when people choose to pirate this content for free.

Local market

The fight against piracy didn't happen overnight.

In recent years, local media under the umbrella of Media Group Ukraine struck a crucial blow against piracy by upgrading TV networks' cybersecurity to protect Ukrainian content from illegal broadcasting.

"Pirates can only target foreign content because you can't reach local sports and local content on piracy sites," Kolodyuk said.

And in Ukraine, the most viewed content is in Ukrainian.

Consumers tend to prefer locally-produced TV shows inspired by international formats like "The Voice" or "X-Factor," according to Kolodyuk..

OTT platforms have license agreements with TV networks to broadcast their content.

For instance, Divan.tv offers access to hundreds of channels to its viewers and pays royalties to TV networks that produce this content.

It's a win-win situation for both OTT platforms and traditional TV networks because their audience is the same.

A recent survey conducted by Sweet.tv concluded that 63% of Ukrainians search for content that's made in Ukraine or broadcast in the Ukrainian language, while 58% of them would like to watch videos on Ukrainian streaming platforms.

That's where pay TV platforms come in. They attract investors by providing local content, Rezunov said.

He also said that international services tend to forget local needs, which leaves room for Ukrainian platforms.

Kolodyuk echoed Rezunov's statement on the importance of exclusive local content for Ukrainian pay TV platforms.

While Poland's TV market is dominated by international players, it is the opposite in Ukraine, where local channels, providers and operators are in the majority, he said.

"It's the only market in Europe which is not dominated by foreign players," he said.

Encryption boost

Ukrainian pay TV may be a niche but it's a huge one, according to Kolodyuk.

While the OTT market was worth $40 million in 2020, he believes that it will grow to $400 million in the near future.

Online TV accounted for only 15% of the market in Ukraine last year, but it could reach up to 50% in four years, he said.

Ukraine's recent switch to encrypted cable was the turning point.

Ukraine's media groups encrypted cable TV in a bid to fight piracy in 2020, forcing viewers to buy special boxes to access their programs, which became the death knell of so-called free analog TV.

This move opened up the market because people had no choice but to subscribe to cable television or online streaming services. It's a battle that cable companies will eventually lose, Kolodyuk believes.

"They will eventually go bankrupt, it's inevitable," he said.

The main challenge for pay TV in the years to come will be to attract older viewers who watch more TV but tend to stick to the more familiar cable or don't know how to switch to new devices.

"Unfortunately, not everyone can afford to upgrade their TVs regularly, some do it every 10 or even 15 years," Rezunov said.

But that's not enough to dash Kolodyuk's high hopes.

"Ukraine is the last market in Europe with good potential for growth," he said. ■

Pirates can only target foreign content because you can't reach local sports and local content on piracy sites

— Andrey Kolodyuk, co-founder of Divan.tv

When it comes to pay TV, the generation gap can be measured in inches. The younger generation may even watch the same program as their parents, the only difference is they use smartphones instead of TV screens.

MiningNetUa

A row of fans blow cool air across an array of graphics cards, computer hardware widely used to mine cryptocurrencies. The crypto business is gaining momentum in Ukraine, even though this domain is still unregulated.

Halfway to crypto-heaven, Ukrainians struggle with pressure from law enforcement

By Liza Semko semko@kyivpost.com

Michael Chobanian, one of the leaders in Ukraine's crypto industry, was on his way to a meeting when law enforcement officials tackled him.

Chobanian was shocked as law enforcement raided his apartment on that November day six years ago, hunting for a mining farm and an e-wallet with cryptocurrency.

The Department Combating Cybercrime of the Interior Ministry seized all of his devices, as well as SIM cards and promotional materials advertising bitcoin.

However, Chobanian didn't do anything illegal. He was simply a victim of the yet unregulated crypto industry in Ukraine.

Ukraine's rising cryptocurrency market is missing the legal framework it needs to realize its potential. Multiple laws currently being discussed in Ukraine's parliament would not only prevent further attacks against crypto entrepreneurs, but would de-shadow the crypto market and encourage foreign investment in Ukraine's growing crypto market.

Illegal raids

Chobanian is a pioneer of the crypto domain in Ukraine.

In 2014, he founded KUNA, the first bitcoin agency in Ukraine and Eastern Europe. In 2015 he went on to launch an exchange for crypto assets, Kuna.io.

The exchange was a big factor in the raid. In allowing Ukrainians to trade the cryptocurrency Bitcoin, officials claim Kuna was not in accordance with the National Bank. But in 2014, the NBU had referred to cryptocurrency as a money substitute.

Later, in 2017, the NBU ditched its 2014 references to cryptocurrency.

Its joint statement with the National Securities and Stock Market Commision, and National Commission for Regulation in the Sphere of Financial Services Markets read that cryptocurrency can be identified "neither as cash or currency and legal tender of another country, nor as currency value, electronic money, securities, or a monetary surrogate".

Chobanian's court case ended up with his victory on Nov. 16, 2015. The court ordered law enforcement officials to give Chobanian back his equipment.

His case wasn't unique. The Security Service of Ukraine, or SBU, raided the home of Russian-born Anatoly Kaplan (Klimov), founder of a magazine about bitcoin, blockchain technology and the digital economy Forklog, on Dec. 15, 2017

The SBU seized his equipment, accusing Kaplan of money laundering and transferring cryptocurrencies to Russia, as well as occupied Donbas and Crimea.

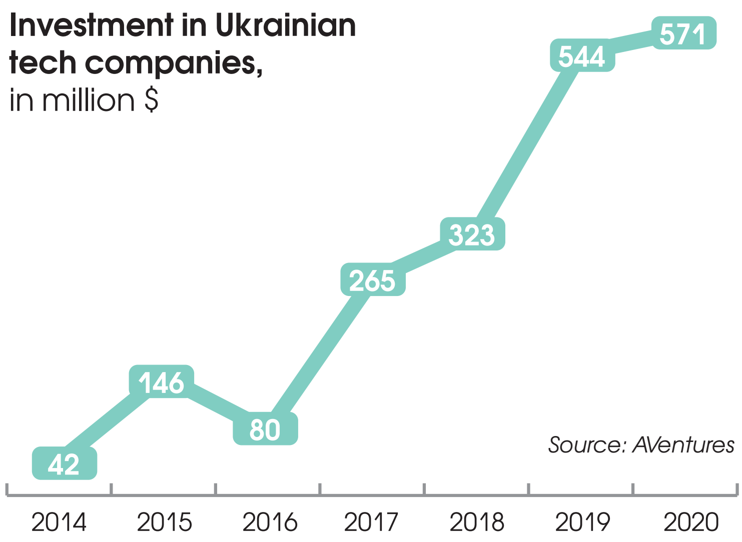
Initially the SBU stated that the raid was connected to an investigation against the U.S. and Ukrainian citizens who stole money from payment cards. Investigators claimed the suspects allegedly exchanged bitcoins for hryvnia using Forklog, but the service doesn't even offer the ability to do so.

Artem Afian, Kaplan's attorney and managing partner at the law firm Juscutum, said that his client was innocent.

Many crypto entrepreneurs and experts see eye to eye that most raids against miners and traders of cryptocurrencies don't have any legal justification.

"It was probably an attempt to make money by law enforcement officers," Deputy Minister of Digital Transformation for IT Development Olexandr Bornyakov told the Kyiv Post.

According to him, officers mostly raid mining farms. "It's unregulated now, but that doesn't mean it's illegal," said Bornyakov.



Tech companies with Ukrainian roots attracted $571 million from local and foreign investors in 2020 — $27 million more than in 2019.

Gray mining

Although the crypto industry in Ukraine is unregulated and Ukrainians cannot register as crypto entrepreneurs and cryptocurrency exchanges, it is completely legal to mine and trade cryptocurrencies.

It is even possible to pay taxes from the profit generated from the mining or the sale of the cryptocurrency. Afian says that crypto entrepreneurs must pay 18% of personal income tax and a 1.5% military fee.

Cryptocurrency exchanges operate in the country legally, but Ukrainian platforms are usually registered in other countries. Chobanian says that the most common jurisdictions are Estonia, U.K., Malta, Singapore and Dubai.

For sure, international crypto exchange platforms also work in Ukraine but face some restrictions.

Gleb Kostarev, director of Binance in Eastern Europe, says that Ukrainian banks cannot work with crypto projects at the moment. Ukrainian users can't directly pour fiat money — government-issued currency not backed by a commodity — into an exchange via bank payment. They can only do so using a payment card.

The absence of regulation puts the launch of the Binance card and office in Ukraine on hold.

Impossible to regulate

To protect crypto users, exchange platforms and develop the crypto market in Ukraine, the government has to adopt more than one law.

Officials have already taken one step, passing a law on the prevention of profit laundering and financing terorrism in 2019. However, its points on virtual assets can't be implemented now because the core law on virtual assets hasn't been passed yet.

It is the first law in Ukraine that defines virtual assets, including tokens, cryptocurrencies and others.

According to it, exchanges, banks and other companies that make payments in cryptocurrency must check transactions more than Hr 30,000 (about $1,000) and request detailed information about their clients

If the transaction looks suspicious, it must be sent to the State Financial Monitoring Service, which can investigate and block crypto wallets and seize money.

The next step in developing the market is passing a set of laws on virtual assets. Lawmakers have already voted for the first core bill in the first reading and are preparing it for the second reading.

The law defines the legal status of the virtual assets, basic rules and demands for providers of services with virtual assets.

"We don't regulate Bitcoin, Ethereum, Tether, tokens. The subject of regulation is service providers," said Bornyakov.

It is impossible to regulate cryptocurrency because its system is decentralized.

Bornyakov says that it's better to regulate the crypto sphere than to ban it. "Bans will lead to nothing," said Bornyakov.

However, Afian says that "the law is not the end of the work".

Further down the line, lawmakers must pass some bylaws about how service providers should register and create penalties for violations.

The Ministry of Digital Transformation plans to make amendments to the Tax Code, as well, setting the income tax rate at 5%, at least for several years, after which it can be slightly increased. Lawmakers are still working on this bill.

Bornyakov believes that the low tax rate may encourage foreign crypto investors to enter the Ukrainian market.

"It's our goal to build one of the best jurisdictions for crypto companies around the world," said Bornyakov.

Afian agrees. He believes that the combination of normal transparent rules, a friendly regulator and a sufficiently comfortable and developed banking system can make Ukraine one of the world's hubs for crypto business.

However, Chobanian is concerned that if the parliament passes only the core law on virtual assets and leaves out the passage of other related laws, including tax amendments, it may lead to negative consequences.

He thinks the 19.5% tax rate is too high. If the lawmakers only pass the core law without the amendments to the tax code, people won't pay it and "it will give free rein to law enforcement officials" to impose fines and continue raiding property of crypto entrepreneurs.

It's our goal to build one of the best jurisdictions for crypto companies around the world.

— Olexandr Bornyakov

Tech entrepreneurs and people who mine cryptocurrencies complain about raids by law enforcement. According to them, authorities don't understand the concept. Olexandr Bornyakov, deputy minister of digital transformation, assumes that law enforcers raid cryptocurrency owners to get kickbacks.

IN PARTNERSHIP WITH

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ENERGY

Kostyantyn Chernichkin

Gas well No. 888 at the Shebelinsk gas condensate field in Kharkiv Oblast on June 25, 2020.

Energy market suffers losses, debts, personnel reshuffling

By Liza Semko semko@kyivpost.com

Ukraine's energy sector heavily relies on fossil fuels.

The industry is a mess of debts, corruption, monopolies, antiquated technology and complicated subsidies.

Out of necessity, the nation is moving towards clean, renewable energy and competitive markets but whether it can reach its goals amid market convulsions and changing personnel is anyone's guess.

At the same time, Ukraine has opened its electricity market in a bid to make it more competitive and closer to the European standards.

In total, Ukrainian companies produced 148.8 billion kilowatt-hour of electricity in 2020, which is 3.3% lower than in 2019.

Nuclear power predominates, producing over half of Ukraine's electricity. Coal-fired power plants — mainly controlled by DTEK, which belongs to Ukraine's richest man, oligarch Rinat Akhmetov — come second.

CARBON-FREE ECONOMY AND CHALLENGES FOR THE UKRAINIAN ENERGY SECTOR

Oleksiy Feliv,
Managing partner, INTEGRITES

With the European Green Deal and the growing global response to climate change, decarbonization of the economy is the challenge Ukraine will have to face in the nearest decades. How Ukraine can leverage the accumulated renewables capacities and make transition towards decarbonization smooth?

The global energy and climate-related agenda has been dramatically changing. In 2019, the European Commission presented the European Green Deal – policy initiatives related to the climate change and aimed to make the EU's economy fully sustainable by 2050. This year the new President of the United States Joe Biden returned the climate emergency into his administration's top priorities, pledged to cut carbon emissions in the next ten years and called for the world community to join. The international trend towards greener economies has been prevailing. These factors determine the politics and economies worldwide. Like many other emerging economies, Ukraine will be impacted by it as well.

The country has actually made a serious step a decade ago towards decarbonization, I mean **introduction of the feed-in-tariff for renewables.** Over the last 10 years Ukraine's renewables sector has become a real industry, diversified by international investors entering the market. Only in 2020, the year of vague forecasts and economic turbulence, Ukraine managed to attract EUR 1,3 billion investments and to commission 1,7 GW of green power capacities. As in many countries, the boom of green energy projects in Ukraine ended up with a need to balance the power system and find a financial compromise between investors and the Government. In 2020 the country succeeded to find that compromise and gave a way to projects it has committed to earlier. Whether the renewables sector will become the basis for further decarbonization will primarily depend on whether the Government will manage to implement the deal reached with the industry.

Obviously, all the further discussions around the industry should not be narrowed down to the feed-in tariff only. We should look at the sector and its potential impact on the national economy at a wider angle. Renewables can and should be the basis for Ukraine's decarbonization action plan. Auctions and corporate power purchase agreements (PPAs) are to follow. The demand for corporate PPAs is already there because the decarbonization trend around the globe urges companies to look for ways to make production greener and comply with the CO^2 emission requirements. This becomes the factor of competition and reality for steel producers, for example, already today. Along with that, phasing out the coal generation and extending the life of the existing nuclear power plants in the next decade is a reality.

The next crucial step implies new technologies – **energy storage and fast-start generation installments** that will ensure balanced power supply and healthy market development. Along with the renewables industry with its sufficient legal framework enabling project development and construction, energy storage issue must have its own class of regulations. The same relates to hydrogen generation, especially green hydrogen, and to demand response programs that should ensure reliable functioning of the power generation capacities. These steps need adequate incentives from the state and framework laws rather sooner than later.

Regulatory framework is also needed for climate change related innovation which has been critically relied upon in Ukraine. A challenging mission to accomplish, because experiments and testing are most likely to take years, and since pilot projects can pose risks to the environment and local communities, the pilots can face penalties – unless the legislative branch, the government and the regulators create "sandboxes" for the engineers to enable creativity without any legal challenges as well as test-to-production strategy platforms where promising innovations can be legally enabled without delay.

Another driving factor of decarbonization is the **border adjustment carbon tax** to be introduced by the EU no later than 2023. Essentially, it means holding importers of goods to the EU responsible for their CO^2 emissions. The rule will apply for the non-EU countries like Ukraine and is likely to serve as a powerful stimulus to the Ukrainian Government. Currently, the goods exported by Ukraine to the EU are equivalent to roughly 8 million metric tons of CO^2. The border adjustment carbon tax will also stimulate introduction of green certificates trading. It is a shame that until today there is no origin confirmation system for green certificates. Green electricity sold by the Guaranteed Buyer has no additional value to the consumers despite the fact that it reduces CO^2 emissions.

Not the least, **the reform of the district heating** should accelerate the pace of Ukraine towards its carbon-free future. Supported by the liberal political forces, the unbundling of the heat supply market will allow to inject private investment into modernization of the power generation facilities. Private money oftentimes drives the innovation which is an additional benefit. Ultimately, the more up-to-date the equipment in the district heating system there is, the closer is independence from fossil fuel and the quicker is the transition to its alternatives.

Full decarbonization of the economy is not a fancy story for the rich countries anymore. It is the new reality that both private and public sectors all over the world will have to deal with quite soon, and Ukraine is no exception.

As a long-term regional leader in supporting international investors into renewables, INTEGRITES understands the challenges which climate change is posing before our clients. We are focusing therefore on climate change driven projects as a first priority. We already are counseling NGOs, businesses and governmental institutions on the legal framework and policy development regarding energy storage, in particular, chemical accumulators and alternative fuels, including hydrogen. We have initiated and led a series of public discussion events regarding hydrogen strategy goals and relevant legal instruments. We are ready to facilitate the discussion with the key market stakeholders and work on the action plan, as legal framework is a must that will speed up Ukraine's movement towards decarbonization goals.

Renewable energy developers produced 7.3% of the total volume. The biggest share of the market belongs to DTEK Renewables, which is also owned by Akhmetov.

Dubious reshuffles

In April 2021, parliament confirmed Herman Halushchenko as the country's new energy minister, the first in more than a year. Halushchenko is also the former vice president of Ukraine's state nuclear giant Energoatom.

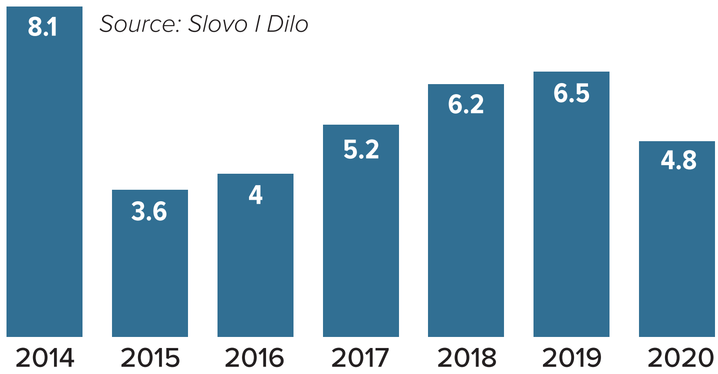
Experts raised concerns about the nomination. Under Halushchenko, Energoatom sold cheap electricity at knock-down prices to companies associated with oligarchs including Akhmetov and Ihor Kolomoisky.

Energy watchdogs also accuse Halushchenko of connections with Andrii Derkach, a pro-Kremlin independent lawmaker and former head of Energoatom, allegations that Halushchenko denies.

Halushchenko's appointment comes after Yuriy Vitrenko, former acting energy minister, became the new CEO of state-owned oil and gas company Naftogaz, superseding Andriy Kobolyev.

The Cabinet of Ministers dismissed Kobolyev after Naftogaz reported $684 million losses in 2020, a first since 2015. But the state bypassed the supervisory board to appoint Vitrenko, which Naftogaz and experts said violated the country's corporate governance principles.

Ukraine's electricity export to European countries,
in billions of kilowatts per year

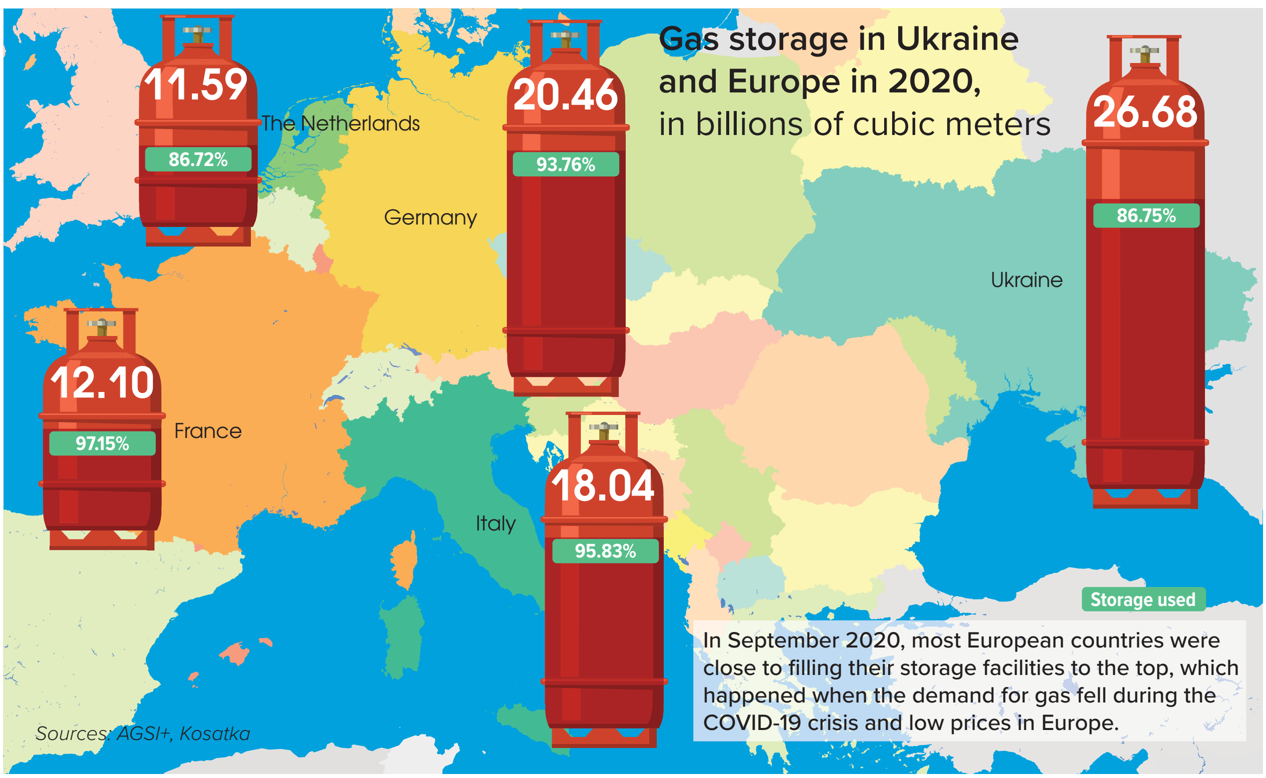


Gas market

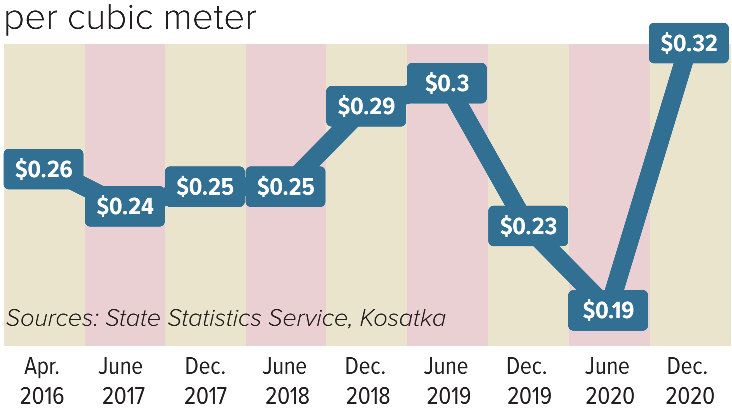
In August 2020, the government canceled Naftogaz's public service obligations to sell gas at subsidized rates and opened the gas market in Ukraine. From now on, Ukrainian can choose their gas suppliers, another step to a free gas market in the country.

However, exiled billionaire oligarch Dmytro Firtash dominates the retail end of the natural gas trade through regional distribution companies which keep pumping gas from the pipeline without paying for it. Since 2020, these companies al-

At the beginning of 2021, Ukraine stopped exporting electricity and switched to meeting its domestic needs due to the harsh winter, low coal reserves and the threat of power outages. Ukraine resumed its exports to the EU in March 2021.



Gas prices in Ukraine in 2016–2020,
per cubic meter



Sources: State Statistics Service, Kosatka

In August 2020, the government canceled Naftogaz's public service obligations to sell gas at subsidized rates and opened the gas market in Ukraine.

ready owe a staggering $326 million debt to the state.

The government had to re-impose price controls to prevent gouging.

Ukrainian gas prices could rise now that the market meets European standards, said Olena Pavlenko, president of Dixi Group Analytic Center.

"Such reforms are never easy," said Pavlenko.

Electricity market

2020 was also the first full year of the new electricity market that was launched in July 2019 to make the sector more competitive.

The state lifted the state enterprise Energorynok's monopoly. The company used to buy energy from producers and sell it to regional electricity distributors.

Customers can now choose energy providers on their own — up to a point. Ukraine's energy grid is still more Soviet than European, making the formation of a genuinely competitive market impossible.

Oleksandr Kharchenko, director of the Energy Investigation Center, told the Kyiv Post in July 2020 that it can hardly be called a "market" since its segments are either under- or over-regulated.

Volodymyr Omelchenko, head of energy programs at the Razumkov Center, also described the new market as inefficient.

"2020 has shown that the introduced model of electricity (market) is completely inefficient, harmful and leads to the accumulation of huge debts," he said.

Last year, Ukraine exported 4.8 billion kilowatt-hours of electricity and imported 2.3 billion kilowatt-hours.

The country also resumed electricity imports from Belarus and Russia at the start of the year, before shutting them down again on May 26.

Ukraine said it would modernize its grid and connect it to the European network by 2023.

Losses and debts

Ukrainian energy state-run companies struggled with losses and debts in 2020.

Ukrenergo, for instance, lost nearly $1 billion last year, while Energoatom reported $175 million in losses. Energorynok's losses, in turn, reached nearly $100 million.

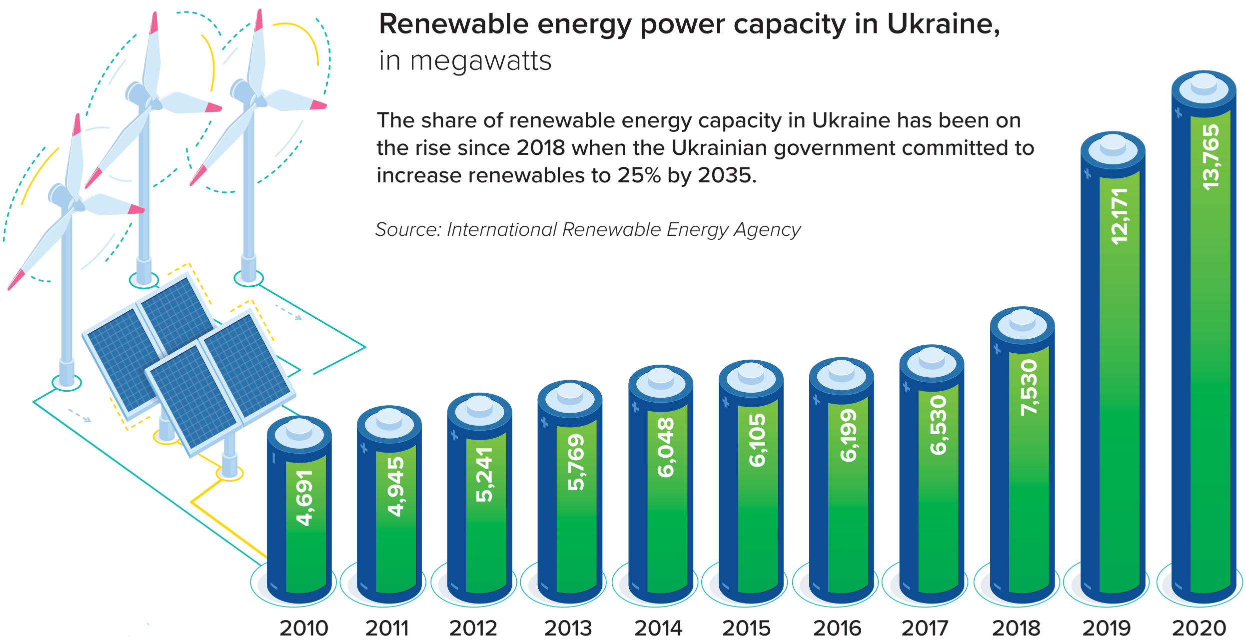
Another problem for Ukraine's state budget is the debts to its energy producers. The government continues to fall behind on payments.

At the beginning of 2021, the country owed green energy investors over $800 million. The Ukrainian government is obliged to buy all green electricity from renewable power plants at some of the highest fixed tariffs in Europe, which it was unable to afford last year.

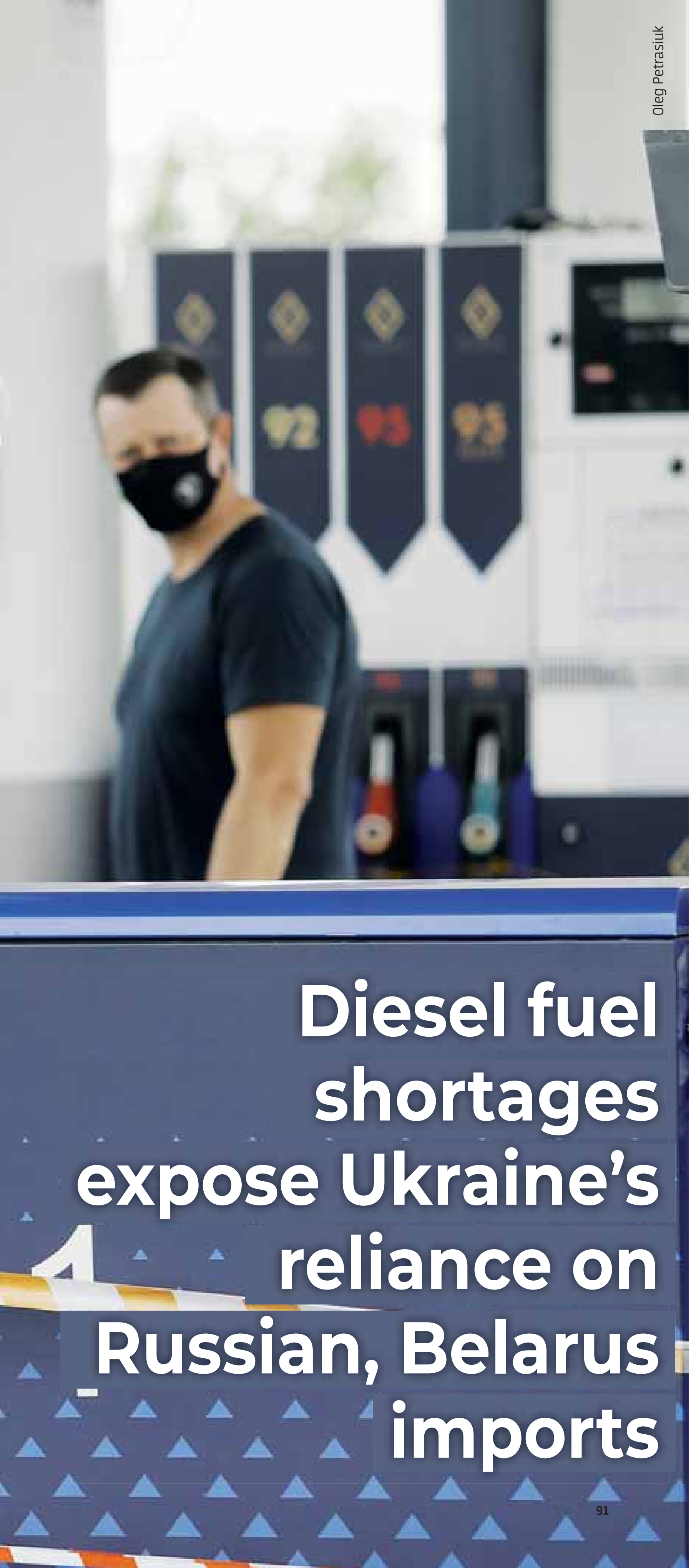
Renewable energy power capacity in Ukraine,
in megawatts

The share of renewable energy capacity in Ukraine has been on the rise since 2018 when the Ukrainian government committed to increase renewables to 25% by 2035.

Source: International Renewable Energy Agency



A petrol station of diesel wholesaler Glusco, a Swiss-based company associated with pro-Russian lawmaker Viktor Medvedchuk, one of the major players in Ukraine's diesel market.



Oleg Petrasiuk

Diesel fuel shortages expose Ukraine's reliance on Russian, Belarus imports

By Mark Rachkevych ghousemark@gmail.com

When Russia's state-owned Rosneft stopped on April 1 supplying diesel fuel — the lifeblood of an industrial economy — Ukraine was reminded about its continuous energy reliance on the belligerent neighbor and the inherent risks of this dependence.

The news coincided with an announcement that Belarus's Mozyr refinery would reduce supplies to Ukraine by 37 percent due to scheduled maintenance that would last until June 15, energy traders told Reuters.

Combined, the developments exposed Ukraine's ongoing vulnerabilities related to its dependence for critical economic inputs from hostile neighbors. More than two-thirds of 7 million tons of diesel fuel that the country consumes yearly is sourced from Belarus and Russia.

This left Ukraine scrambling to compensate for a monthly shortfall of about 170,000 tons of diesel fuel, then-Economy Minister Ihor Petrashko told the Kyiv Post. Five trading sources told Reuters the deficit in May could reach 270,000 tons.

Already on May 14, the government set fixed prices for diesel and gasoline fuel. This prompted three major fuel pumping chains — OKKO, WOG and SOCAR to temporarily stop selling the premium lines of their petroleum products.

Relations between Minsk and Kyiv have been particularly strained ever since Ukraine refused to recognize the flawed August 2020 presidential election in Belarus. Moscow in addition has eschewed direct dialogue with Kyiv despite President Volodymyr Zelensky's entreaties to meet with his Russian counterpart Vladimir Putin over the warring neighbor's military buildup and concentration of a naval force in the Black Sea and Azov Sea.

Besides diesel, Ukraine is heavily reliant on Russia's coking coal, importing 65 percent last year in volume terms; Russia also accounted 92 percent of total imports of anthracite coal, which is used to produce electricity at thermal power plants.

In the long-term and based on possible geopolitical scenarios, Petrashko warned that Ukraine "needs to be prepared for a shortage of up to 250,000 tons per month" if Russia cuts the supply of diesel fuel completely. "In the long-run, we need to be more flexible about imports from other countries," he said.

Dependency on diesel

The production side of Ukraine's economy is reliant on diesel, mainly its agricultural sector, which accounts for 22 percent of consumption, rail and motor transportation — 21% and industrial companies — 12%, according to an April report by Kyiv-based investment firm Dragon Capital.

The defense and military complex also needs diesel — about 200,000 to 250,000 tons a year, said Serhiy Kuyun, an energy analyst for Concorde Capital.

To make up for the shortfall, Ukraine has increased maritime shipments of diesel from Italy, Greece, Turkey, Israel and other countries as well as volumes delivered from trucks, Andriy Gerus, a lawmaker who chairs parliament's energy committee, told the Kyiv Post.

Domestic production is also increasing – mainly at state-owned UkrGazVydobuvannya and Ukrnafta coupled with the Kremenchuk oil refinery of Ukrtatnafta, whose majority owner is oligarch Ihor Kolomoisky.

This means that state-run railway company Ukrzaliznytsia (UZ) has to bolster logistics to deliver diesel from ports, a task with which it has struggled in the past, noted Kuyun, who has analyzed the energy market for 20 years.

UZ gave assurances in an April 27 news release that it is ready to transport up to 200,000 tons of diesel per month starting in May as it plans to repair up to 300 cisterns, acting chief executive Ivan Yuryk said.

The industry's main lobbying group, the Ukrainian Oil and Gas Association, told the Kyiv Post that, after a meeting with Petrashko late last month, "the May consumption of diesel fuel should be relatively normal."

Still, Kuyun of Concorde Capital is unconvinced given UZ's track record of past performance and the fact that "its record has been to move up to only 150,000 tons per month."

"UZ could say what it wants — it could propose anything... (but) a deficit is impossible to avoid," he said. "Officials underestimate the problem and I don't see systemic work to prevent this."

However, there's "not need to panic" because the market will handle itself, Kuyun added.

Medvedchuk's pipeline

Despite assurances, though, prices for diesel have surpassed $1 per liter and has increased monthly by more than 10 percent since February, because shipping costs are more expensive from sources farther than Belarus and Russia.

Gerus and Andrian Prokip, an energy expert with the Ukrainian Institute for the Future, believe the reduction of Russian diesel imports is tied to a special pipeline associated with pro-Russian lawmaker Viktor Medvedchuk.

Zelensky signed off to seize the pipeline based on sanctions imposed by the National Security and Defense Council in February.

As a minority shareholder, state-run UkrTransNafta took over management of the seized property toward the end of that month. Called PrykarpatZahidTrans, the pipeline moved 624,200 tons, or 10 percent of the total volume of diesel fuel imports to Ukraine, last year.

Journalists at Bihus.info on May 24 released unverified audio recordings of Medvedchuk discussing taking over the Ukrainian segment of the pipeline in 2015. It fell under control of Swiss-registered private company International Trading Partners, which was allegedly controlled by Taras Kozak, Medvedchuk's ally.

Both are suspected of committing treason against the state, allegations that they deny and have rejected as "political persecution."

Medvedchuk has denied any association with the pipeline as well as to Proton Energy, the owner of Swiss-based diesel wholesaler Glusco, and its chain of gas stations in Ukraine. Proton Energy had been the sole supplier in Ukraine of diesel from Rosneft from May 2017 to April 2021.

It doesn't matter if Medvedchuk is the ultimate owner of Proton and the pipeline, Prokip said. "What matters is that he benefited somehow when he was just Russia's authorized 'overseer' of operations," he said. "He used the money to promote Russian narratives in Ukraine through TV and YouTube channels."

Medvedchuk's media were also sanctioned by the Ukrainian government in February.

As for the pipeline, the minister didn't rule out it being used again if ownership changes, but that is "not in the short-term horizon."

More deliveries, reserves

Another risk is that Belarusian refinery Naftan has been sanctioned by the United States, "which will prevent the company from resuming deliveries to Ukraine," Dragon Capital said in its report.

Thus, Ukraine must be ready for a complete ban from Belarus and Russia for geopolitical reasons, Kuyun said.

Should it happen, Ukraine would have to secure around 380,000 tons per month of additional diesel fuel deliveries.

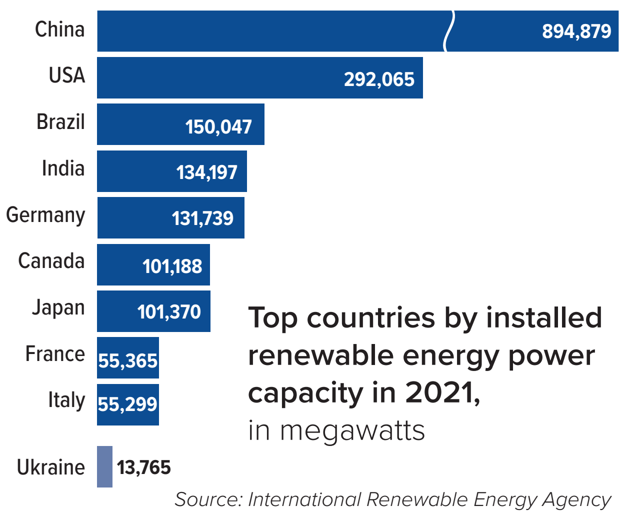
"This vulnerability means that Russia could always use energy as leverage anytime although this would mean it would lose revenue," Prokip said.

Former Economy Minister Petrashko said the government "obviously is aware of the long-term risk of a gas blockade...but we are comfortable of our ability to respond if supplies (from Russia and Belarus) drastically reduce."

Absent to mitigate some risks, according to Prokip, is that Ukraine lacks a law to have strategic oil and fuel reserves to cover 90 days of imports.

Lawmaker Gerus said there is a working group that "is still discussing it... the most controversial point is who should finance such a reserve."

Ukraine does have strategic fuel reserves despite the absence of a law and they "are closely monitored," Petrashko said, without disclosing how much in volume and citing confidentiality reasons.



Foreign investment in Ukraine's renewables sank to 1.2 billion euros in 2020, according to the State Agency on Energy Efficiency. This is three times less than in 2019, when green developers poured 3.7 billion euros in building renewable power plants.

This picture shows a ChornomorNaftogaz drilling rig off the coast of Crimea. In 2014, Russia's military forcibly seized Naftogaz daughter company ChornomorNaftogaz's drilling rigs and stole 80% of Ukraine's Black Sea resources.

Ukraine loses out on Black Sea's rich natural gas supply

By Alexander Query query@kyivpost.com

Talks about exploiting the Black Sea shelf have been ongoing since 2012, when estimates revealed that Ukraine's deep territorial waters may contain more than 2 trillion cubic meters of gas.

Shortly thereafter, Russia stole most of Ukraine's offshore oil and gas deposits when it annexed Crimea in 2014, extending its control into Ukrainian territorial waters.

As a result, Ukraine lags behind other Black Sea nations in extracting its potentially prolific offshore gas deposits. It is simply unable to pull off such an ambitious project on its own. It needs billions of dollars in investments and more advanced technology to exploit its own seabed.

While Ukraine's state-owned gas company Naftogaz has plans to start exploring Black Sea's deepwaters, it may be too little, too late, according to Ilya Ponomarev, CEO of U.S. company Trident, which is involved in this sector.

"The question isn't 'When will it start? It's `Will it start or not?" he told the Kyiv Post.

Looking for partners

The urgency is growing to explore new gas fields, as Ukraine's existing production sites are more than 80% depleted. Naftogaz announced on May 20 it would finally start a 3D seismic exploration program in its seabed next summer to get a clear idea of its potential resources and how to exploit them.

Drilling in the Black Sea is a lucrative operation, but it requires stable financing and a flexible business model, which Naftogaz doesn't have, Ponomarev said.

In total, it would cost at least $1 billion to explore the seabed and install platforms and gas wells.

Naftogaz would need to put at least $200 million on the table to start the exploration. But the company lost $684 million in 2020, leading to the firing of former CEO Andriy Kobolyev and the appointment of his replacement, Yuriy Vitrenko.

"Right now Naftogaz doesn't have the capability to develop the exploitation, that's why Ukraine needs partners," Ponomarev said.

According to him, Naftogaz is too slow to take the lead as the sole offshore entrepreneur, and too small to buy the equipment to make the most of the Black Sea resources.

Which is why Naftogaz announced a partnership on March 15 with Israel-based company Naphta Israel Petroleum, which specializes in oil and gas exploration.

"Attracting international investors is crucial to achieving gas independence for Ukraine," Otto Waterlander, chief operation officer at Naftogaz, said during the signing ceremony.

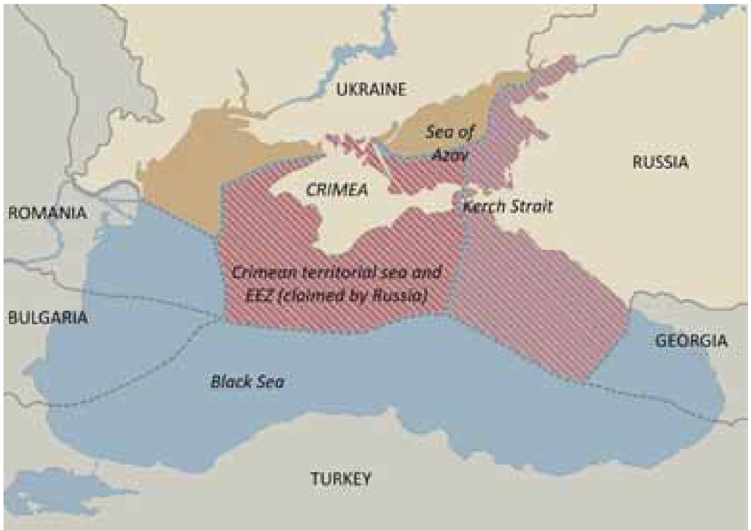
In February, Naftogaz also signed a similar mutual offshore cooperation pact with the Romanian branch of Austria's OMV Petrom, the largest energy company in Central Europe with its own ambitions to become a major Black Sea player.

But OMV is one of the shareholders of Russia's Gazprom in the controversial Nord Stream 2 project, which makes this partnership unsettling.

"They can just delay the project indefinitely to serve their own interests with Russia," Ponomarev said.

If completed, Nord Stream 2 would allow Russia

Territorial waters of Ukraine and its neighbors in Black Sea



Since Russia illegally annexed Crimea in 2014, Ukraine lost up to two-thirds of its littoral to its aggressive neighbor. This hampered Ukraine's exploitation of oil and gas in its waters.

Source: Center for European Policy Analysis (CEPA)

to bypass Ukraine when transporting an annual 110 billion cubic meters to European countries through Germany, depriving Ukraine of at least $1.5 billion in transit fees per year.

Russia and Ukraine are currently under a five-year, $7.2-billion agreement that guarantees a fixed amount of gas transmission through Ukraine each year. From 2021 through 2024, the annual guaranteed amount is 40 billion cubic meters — out of 200 million cubic meters exported by Russia each year.

Stakes for economic exploitation are high in the Black Sea, which harbors trillions of cubic meters of natural gas in its deepwater shelf.

No-go zone

There's another factor working against the

> **Russia is doing everything to prevent Ukraine from developing in the region**
>
> — Ilya Ponomarev, CEO of Trident

In total, Ukrainian companies produced 148.8 billion kilowatt-hours of electricity in 2020, which is 3.3% lower than in 2019.

Ukraine-Romania cooperation in the Black Sea — the Kremlin. Russia's substantial presence in the Black Sea makes it difficult for Ukraine to develop offshore gas deposits with major partners.

"Russia is doing everything to prevent Ukraine from developing in the region," Ponomarev said.

He cited the example of British-Dutch company Shell, another Nord Stream 2 shareholder, which dropped a potential partnership with Ukraine when Russia attacked the country in 2014.

Under the United Nations Convention on the Law of the Sea, exclusive economic zones (EEZ) extend 370 kilometers from a sovereign country's coastline.

As of March 2014, ChornomorNaftogaz gas estimated the Crimean maritime zone to have gas resources worth trillions of dollars.

Russia's illegal annexation of Crimea meant Ukraine not only lost substantial offshore reserves but also control over Naftogaz subsidiaries operating in the region, along with billions of dollars in equipment.

In 2014, Russia's military forcibly seized Naftogaz daughter company ChornomorNaftogaz's drilling rigs, its fleet and headquarters in Sevastopol. It was the "biggest loss of Ukraine in Crimea," accounting for 80% of its Black Sea oil and gas deposits, according to Anton Korynevych, permanent representative of the President of Ukraine in the Autonomous Republic of Crimea.

Naftogaz filed a lawsuit against Russia in The Hague in 2017, demanding $5 billion in damages from the loss of assets. The lawsuit hasn't shown any results.

In June 2020, Russian lawmaker Mikhail Sheremet publicly stated that Russia will stop any attempts to extract hydrocarbons on the Black Sea shelf off the coast of Crimea.

"Any attempt to interfere will be viewed by our side as an act of aggression against Russia," he said.

A crowded sea

Russia's annexation of Crimea has complicated relations with all its Black Sea neighbors.

The peninsula's EEZ overlaps with what remains of Ukraine's, as well as with those of Romania and Turkey, which is also eyeing further exploration in the Black Sea.

Since Turkey didn't sign the United Nations Convention on the Law of the Sea, it isn't required to respect any EEZ commitments. What matters is who drills first. The country made international headlines in 2020 when it said reserves at its offshore Tuna-1 exploration zone may have 405 billion cubic meters of gas.

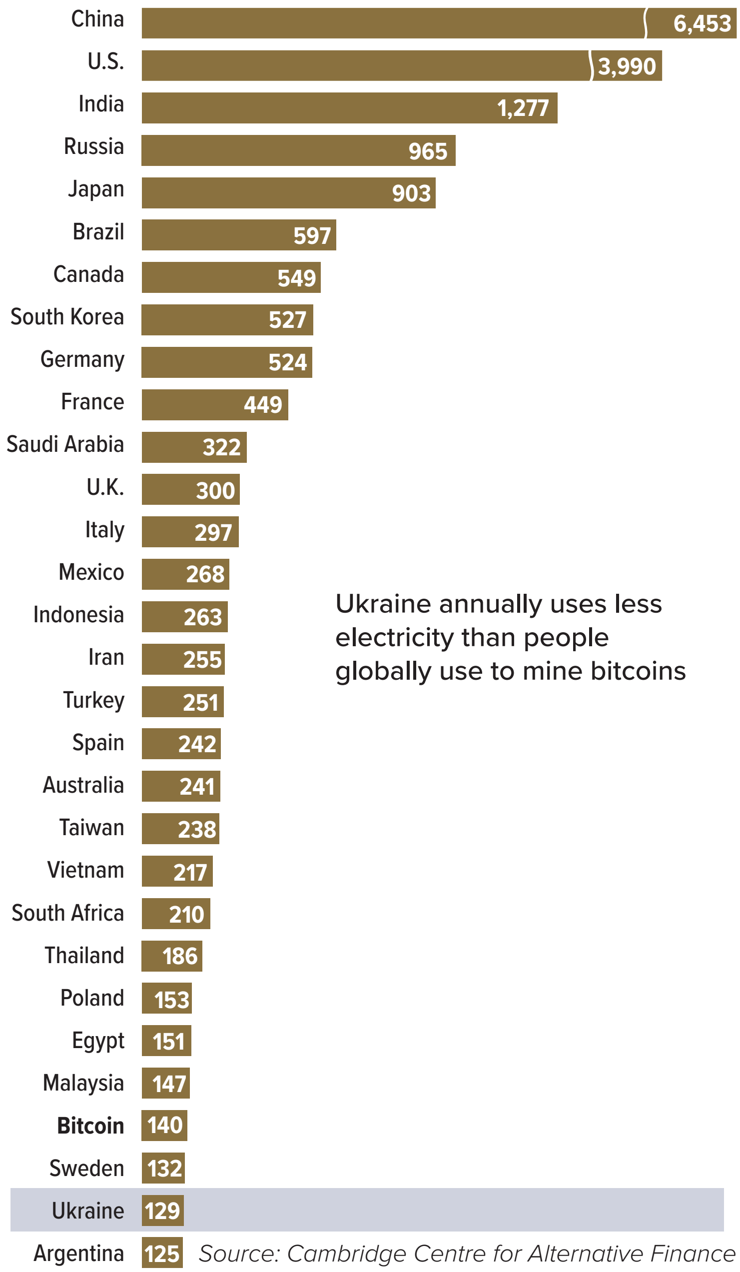
The find was Turkey's largest-ever natural gas discovery, and Ankara hailed it as a "miracle," while claiming that Turkey could become a net exporter of natural gas.

The gas deposit is located some 150 kilometers off Turkey's Black Sea coast, and is at the perimeter of Bulgaria's and Romania's maritime borders.

Bulgaria's total reserves are unknown, but just one of its unexplored fields is thought to contain 100 billion cubic meters of gas, enough to cover the country's annual demand for more than 30 years.

These factors raise the stakes in the region, attracting investors everywhere, except Ukraine — the country that is still "not ready for foreign investment," Ponomarev said.

Annual electricity consumption in 2018 or 2019,
in terawatt-hours per year



Source: Cambridge Centre for Alternative Finance

INFRASTRUCTURE

IN PARTNERSHIP WITH

Volodymyr Petrov

The Gavansky Bridge over the Dnipro River on April 19, 2021. Ukraine's Big Construction project, a massive plan launched in 2020 to fix the country's infrastructure, remains the state's top priority in 2021.

Big Construction project remains dominant topic in Ukrainian infrastructure

By Alexander Query query@kyivpost.com

President Volodymyr Zelensky had promised to build or repair 6,500 kilometers of roads as well as 100 schools, 100 kindergartens, 100 stadiums, and 210 hospital emergency departments by the end of 2020. He called it Big Construction.

But Zelensky didn't meet the deadline. The initiative was too ambitious for such a short period of time, so Big Construction is still in full swing.

Our Sustainability Approach Powering Progress

What Sustainability Means for Shell

In February 2021 Shell has set out its strategy to accelerate its transformation into a provider of net-zero emissions energy products and services, powered by growth in its customer-facing businesses. Our target to become a net-zero emissions energy business by 2050, in step with society's progress towards the goal of the Paris Agreement on climate change, is at the heart of our energy transition strategy. That means continuing to reduce our total absolute emissions to net zero by 2050.

Powering Progress sets out our strategy to accelerate the transition of our business to net-zero emissions. Becoming a net-zero emissions energy business means that we are reducing emissions from our operations, and from the fuels and other energy products we sell to our customers. It also means capturing and storing any remaining emissions using technology or balancing them with offsets.

Shell is a global group of energy and petrochemical companies with 83,000 employees in more than 70 countries. The company uses advanced technologies and take an innovative approach to help build a sustainable energy future. Shell also invests in power, including from low-carbon sources such as wind and solar; and new fuels for transport, such as advanced biofuels and hydrogen.

Shell Retail business entered the Ukrainian market in 2007. Shell in Ukraine employs around 1 500 people. To date, the network of Shell-branded fuel sites consists of 132 stations in 20 oblasts of Ukraine, offering its customers high-quality motor fuel products, including Shell V-Power petroleum, diesel & LPG, as well as a solid range of Convenience Retailing goods, tasty food & beverages products. In an effort to meet the expectations of a growing number of Ukrainian electric vehicle owners, Shell in cooperation with its partners installed five electric vehicle charging modules at selected fuel sites.

shell.ua

It's necessary to finish it. Much of Ukraine's aging infrastructure was developed in the Soviet Union.

Rampant corruption in construction tenders have left roads potholed and crumbling — an issue that Big Construction is trying to tackle by implementing a transparent system of attracting and using funds.

The European Bank for Reconstruction and Development agreed to provide a 450-million-euro loan in December 2020 to the state road agency Ukravtodor to help fix the country's infrastructure.

Ukraine needs this money, Zelensky said during a press conference in February 2021. Infrastructure "is what we all use today, every day. And this is what will remain after us," he said.

Roads, bridges & trains

Thanks to public-private partnerships (agreements between the state and private companies), Ukraine's government plans to repair 4,500 kilometers of state and 2,000 kilometers of local roads in 2021.

The construction of the Kyiv bypass road connecting the country's east and west will also begin this year. It may be the longest road in Ukraine with a total length of 150 kilometers upon completion.

Results of President Zelensky's Big Construction project in 2020

71 hospital emergency departments repaired

101 sport facilities built or reconstructed

114 schools built, reconstructed or repaired

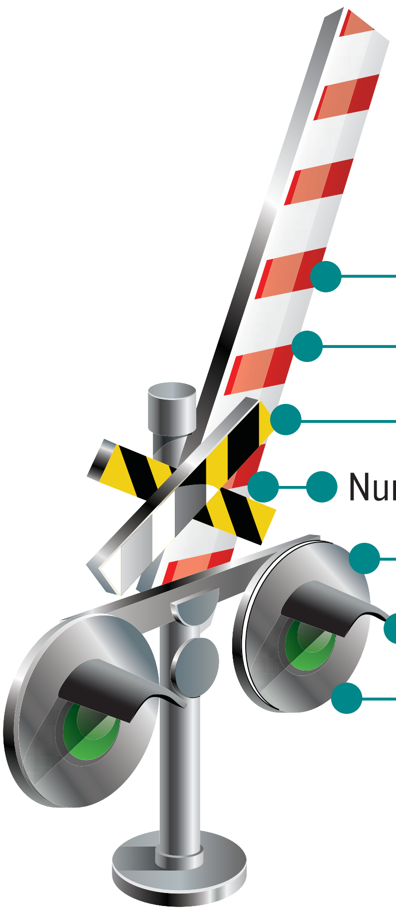
158 bridges built, reconstructed or repaired

4,056 kilometers of state roads built or repaired

2,527 kilometers of local roads built or repaired

Source: Big Construction

President Volodymyr Zelensky said he wanted to be remembered as the president who built good roads. He started the Big Construction program to build and repair Ukraine's ailing infrastructure. As of September 2020, the total amount allocated for this purpose reached $4.4 billion.



Ukrainian railways in numbers

- Railroad – **19,786 kilometers**
- Passenger railway stations – **103**
- Train stations – **1,402**
- Number of employees – **over 250,000**
- Locomotives – **1,796**
- Passenger wagons – **2,860**
- Freight wagons – **51,783**

Source: Ukrzaliznytsia (2019)

The widespread railway network, which is controlled by state monopoly Ukzaliznytsia, connects 80–90% of Ukraine's cities. Train rides are cheaper and more popular in Ukraine than air travel.

Top 5 seaports by cargo turnover in 2020

1	Yuzhny	**– 62 million tons**
2	Mykolaiv	**– 30 million tons**
3	Chornomorsk	**– 24 million tons**
4	Odesa	**– 23 million tons**
5	Mariupol	**– 7 million tons**

Source: UkraineInvest, Ukrainian Sea Ports Authority

Most of the country's grain and metallurgy products are exported through seaports. For reference, 98% of all grain exports leave the country through the ports and grain is Ukraine's largest export.

The state also plans to build and upgrade 245 bridges, including the one in Kremenchuk, in central Ukraine.

Ukraine's railway system is on the list too. In May, France and Ukraine signed a record sale agreement totaling 1.3 billion euros ($1.5 billion) for the purchase of French goods and services.

French transport company Alstom will supply 130 electric locomotives to Ukraine's state railway company Ukrzaliznytsia for 880 million euros, boosting both economies. France is also financing 85% of the modernization of Ukraine's rolling stock, through a 350-million-euro French Treasury loan and 400 million euros in loan guarantees.

Air travel

According to Zelensky, the reconstruction of the international airport in the city of Dnipro has recently begun; the construction of the airport of Zakarpattia, between Uzhhorod and Mukachevo, is planned for 2021.

Ukraine will focus on the development of regional airports, which are in dire need of renovation, in the year to come.

The government also plans to create a national state airline able to operate domestic and international flights, but the idea may have to wait for the end of the global pandemic.

Restoring heritage

In a bid to preserve the country's decaying cultural heritage and attract more tourists, the government has allocated $72 million to restore 150 historical monuments within the next three years.

Zelensky announced the launch of the so-called Big Restoration in February within the framework of his Big Construction program to fix infrastructure in the country.

The state is considering different funding sources, including private-public partnerships with private companies to focus on the most attractive assets for tourists. But so far, there are no companies involved.

This list of monuments and the deadline of the project will probably be extended to preserve Ukraine's history, Zelensky acknowledged when announcing the project.

"We have many historical monuments — it is simply impossible to restore all this in three, five or 10 years," he said. ■

President Volodymyr Zelensky announced the launch of the so-called Big Restoration project to preserve the country's decaying cultural heritage. It's an ambitious program but the allocated sum might not be enough because Ukraine's many monuments are expensive to restore.

RGC: How client interests drive industry transformation

Ukraine has one of the largest gas systems in Europe. The local gas distribution system can pump up to 100 billion cubic meters of gas per year, while the real demand of gas consumers is only 25% of this capacity. The Law on natural gas market adopted in 2015 has made the priority of consumer needs and this is the prime mover for the transformation of the gas distribution industry carried out by the Regional Gas Company.

Behind the scenes of gas delivery

Emergency dispatch service is on the frontline for customer communication. The safety of millions of households — and at times, even people's lives — depends on the work of these people. Around 500 emergency dispatch service crews are operating in 16 regions of Ukraine.

Two advanced centralized dispatching stations in Kryvyi Rih and Lutsk have been established. This year dispatching stations will be opened at each DSO. The operators use three digital systems RGC EDS, RGS GIS, and RGS Transport to coordinate the work of the emergency workers across regions.

Network maintenance is just as important. The employees of gas distribution companies maintain the equipment and check hundreds of kilometers of gas pipelines a day, using up-to-date mobile laboratories.

The networks are being gradually modernized as well. In the past three years, 1,600 gas control points and 30,000 building regulators have been replaced as well as over 400 kilometers of gas pipelines. Gas distribution companies operating under the RGC brand can perform replacement of entire sections of pipelines without suspending gas delivery using Ravetti STOP/SYSTEM™, which allows providing a shutdown of pipelines in a required part of a network without interruption of gas.

RGC re-industrialization

Seeing the great need for sophisticated gas equipment for network modernization, the Regional Gas Company has decided to take the path of construction of new plants. The idea grew into the RGC Production Project.

The first gas equipment plant began operating in May 2019 in Lviv. For its operation, the Lviv plant, which employs 145 people, increased its capacity sixfold. The second plant began its operation in Dnipro in January 2021. It will produce around 1,000 cabinet-type gas control points for the modernization of the networks across the country. In 2021, the third plant located in Vinnytsia is due to come into operation in 2022.

In 2020, the RGC opened a metrological center for inspection of measuring equipment in Kharkiv. It has radically changed the approach to the process of regular inspection of the meters. The RGC Metrological Center is the only metrological enterprise in Eastern Europe to operate on the Smart Factory principle. The center's capacities allow for quality European-level servicing of 250,000 household gas meters per year.

104 turns into 104.ua

The creation of the 104.ua platform was the first important step in improving services for the customers. Now, 104.ua is not just a website, but an integrated service ecosystem with 3.6 million customers having an opportunity to interact with the gas companies through the platform.

The 104.ua brand features mobile apps, chatbots in messaging apps, interacting with over 1 million users, and the largest in Ukraine network of 150 customer spaces. The 104.ua service is currently working on expanding its presence offline. In March, 65 self-service terminals, which help customers perform the most popular transactions, have been installed.

The redesign is the future

The transformation of the country's gas distribution network to meet today's demand is yet another global task of the RGC. Over the past 20 years, natural gas consumption in Ukraine has dropped almost by four times. The gas distribution system needs to change to meet the needs of the customers and the trends in the energy sector.

In recent years, the RGC has already gained some practical experience, having optimized the networks in several populated areas. Gas distribution companies currently have several network optimization projects allowing a reduction of the costs for the maintenance of the system. The search for partners who are willing to get involved in the gas distribution network redesign is on the go.

The RGC is aware that the modernization of the system must take into consideration the latest trends, including the option of transportation of new types of energy like hydrogen within the framework of the European Green Deal.

The Regional Gas Company was the first in Ukraine to begin testing hydrogen gas mixture transportation using the distribution gas pipelines. The RGC joined the EU initiatives — Hydrogen Strategy under the European Green Deal. Clean energy is the future of Europe and Ukraine and this is why, standing on the threshold of global changes, RGC is implementing the R&D hydrogen project on five experimental test sites in Volyn, Dnipropetrovsk, Zhytomyr, Ivano-Frankivsk and Kharkiv oblasts.

RGC

Gas distribution

Networks maintainance

Replaced:

1,573 gas control points

29,471 building regulators

403 km gas pipelines

Metrological center brings European-level service of 250,000 household gas meters per year.

15,100 new gasifications

93,000 connections and reconstrutions

2 project offices in Kyiv and Lviv

Production

3 modern plants built: Lviv, Dnipro, Sumy

4th plant in Vinnytsia is under construction

20 logistic centers with automated accounting

Having our own production allows us to optimize expenses for repairs and modernization of gas networks

104.ua online services

4.8 mln users

3.5 mln users on 104.ua

1.3 mln users chat-bots

65 self service terminals

150 104.ua Client spaces

Research +Development +Innovation

- ***Redesign***
  Innovative solutions to reduce the capacity of gas distribution networks in 7 regions: Vinnytsia, Volyn, Zhytomyr, Lviv, Sumy, Kharkiv, Chernihiv
- ***Hydrogen project***
  5 polygons for hydrogen testing of gas systems: Volyn, Dnipropetrovsk, Zhytomyr, Ivano-Frankivsk, Kharkiv regions
- ***RGC joined the European Clean Hydrogen Alliance***

Kostyantyn Chernichkin

Olga Tovkes, general director of Master-Avia that manages Ihor Sikorsky Kyiv International Airport (Zhuliany), poses for a picture on May 13, 2021. Zhuliany airport's passenger traffic suffered a 71.3% drop in 2020 as a result of the coronavirus pandemic.

High airfares, shabby airports make Ukrainians reluctant to travel on domestic flights

By Asami Terajima terajima@kyivpost.com

Out of 20 airports in Ukraine, 12 are falling apart. That's how aviation experts put it.

The awful state of the local airports, along with high taxes on aviation fuel, is the reason why few people travel by air domestically in Ukraine.

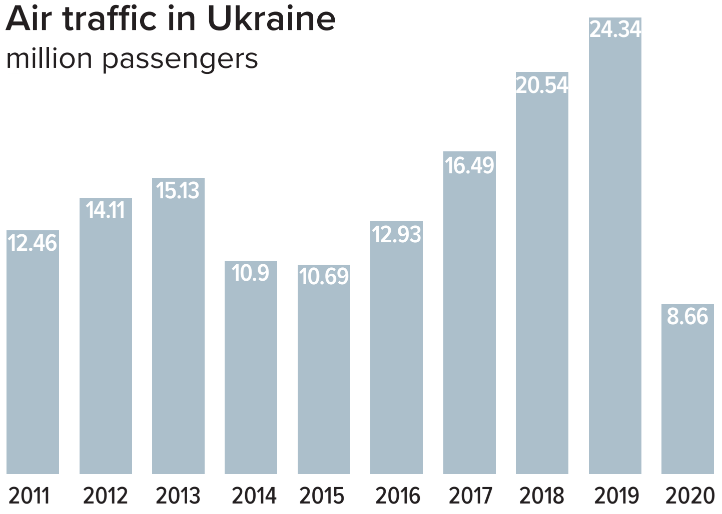
In contrast with the widespread railway network that connects 80–90% of cities in Ukraine, domestic air routes are nowhere near as developed, while the tickets are more expensive.

Olga Tovkes, general director of Master-Avia that manages Ihor Sikorsky Kyiv International Airport (Zhuliany), said it's a vicious circle: ticket prices will go down when there is greater demand, while the demand will go up if the tickets are cheaper.

Tovkes believes that a bigger passenger flow can be achieved when "the quality of life improves" throughout the country and the locals start to earn more. In 2019, less than 3% of the population used air transport to get to another Ukrainian city, according to the Ukrainian Institute for the Future.

Air traffic in Ukraine

million passengers



Source: Centre for Transport Strategies, State Aviation Administration of Ukraine and airports

Yevgen Treskunov, founding partner of Aviaplan, an independent aviation consultancy, has built a formula for cheaper domestic airfares in Ukraine, and the key steps are reconstruction, making aviation fuel cheaper for airlines and abolishing the value-added tax on domestic air tickets like the European Union countries did.

Rail vs. air

In a country with a population of 40 million, airlines served 390,200 domestic air travelers during the first eight months of 2020, according to the State Aviation Administration of Ukraine.

Meanwhile, Ukraine's railroad monopoly Ukrzaliznytsia transported 11.8 million passengers within the country during a similar time frame, the Ministry of Infrastructure reported.

Domestic flights can't compete with the well-developed railway system in the country unless they become more affordable by overcoming the obstacles to cheaper airfare throughout the country, aviation expert Kyryl Novikov said.

Yevhen Khainatsky, CEO of new low-cost carrier Bees Airline, admitted in April that domestic flights are currently unprofitable for all airlines. He estimated the average domestic airfare to be between $55 to $66, while Novikov calculated train tickets to be about three times cheaper.

Outdated infrastructure

Most runways in Ukraine were built more than 30 years ago, specifically for Soviet aircraft, which put a lot less pressure on the ground when they land in comparison to the common types of aircraft used by low-cost carriers — Airbus and Boeing.

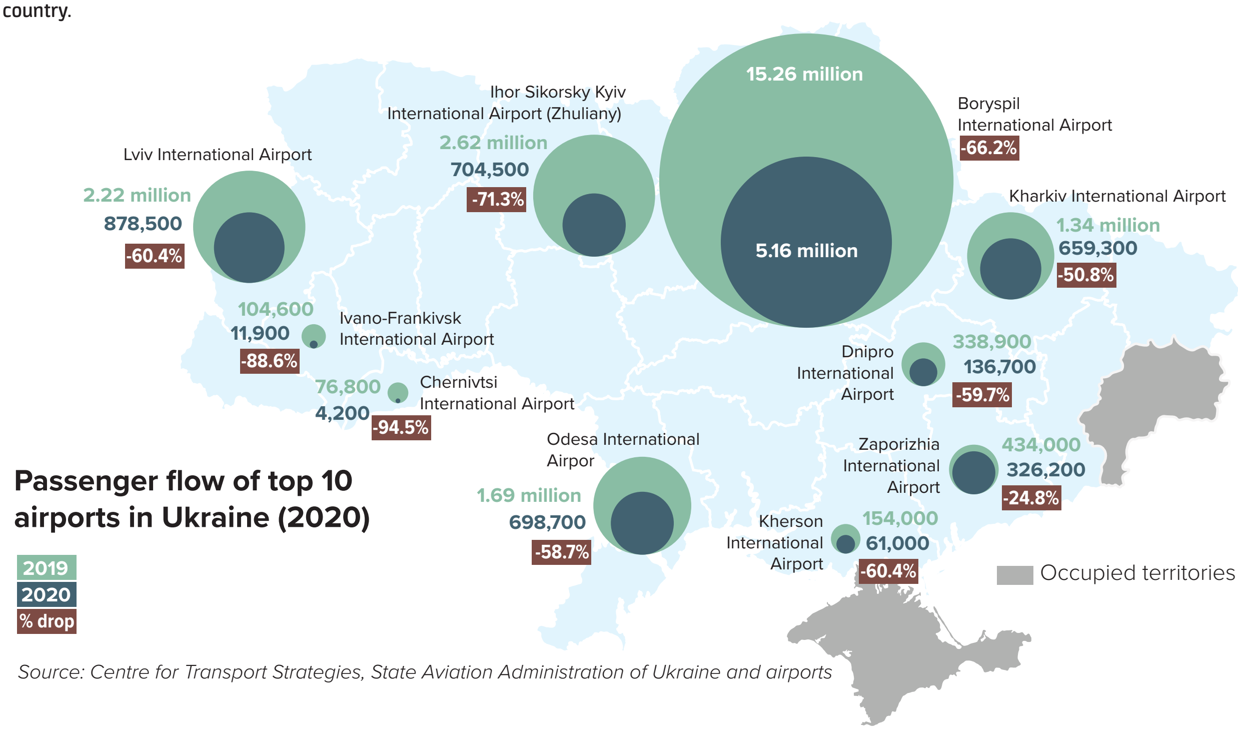
Treskunov said that the pavement needs to be either replaced or strengthened to meet today's standards, but runways are "the most complicated part of the airport" and finding investors for reconstruction is very difficult, especially for airports with less than 1–2 million passengers a year.

Ukraine's aviation market is heavily focused on the two airports in Kyiv — Zhuliany and Kyiv Boryspil International Airport, while the development of regional airports lags behind, according to Treskunov. In 2020, the two Kyiv's airports served 68% of the total air traffic in the country, the Center for Transport Strategies reported.

The reconstruction of runways at regional airports needs to be completed first because the airport would otherwise "become invisible for air-

Ukraine's aviation market is heavily focused on two airports in Kyiv — Zhuliany and Boryspil. In 2020, the two airports served 68% of the total air traffic in the country.

Passenger flow of top 10 airports in Ukraine (2020)



Source: Centre for Transport Strategies, State Aviation Administration of Ukraine and airports

Kostyantyn Chernichkin

lines," which would discourage investors from pouring their money into other infrastructure such as passenger terminals, the expert said.

While investors can usually get a return on airport terminals within 10–15 years, runways are expensive with a longer repayment period and don't generate as much revenue, according to Treskunov.

The aviation consultant explained that even banks are less willing to credit the development of runways because terminals are just "more commercially attractive," so the government needs to step up and help regional airports.

Former Infrastructure Minister Vladislav Krikliy stated last year that the ministry will continue working to modernize regional airports — about $90 million has been allocated from the state budget.

Treskunov said that Airbus A320 and Boeing 737 Next Generation families, both of which are widely used today, have some of the lowest costs per seat. But in most regional airports, they are restricted by frequency or total loaded weight or cannot

Many regional airports need to repair their runways to serve more aircraft types and contribute to the development of the local airline industry. However, they struggle to find investors who would be willing to finance their reconstruction projects.

The number of passengers carried by Ukrainian airlines

Source: State Aviation Administration of Ukraine be serviced at all since the pavement is not strong enough to bear their weight of the aircraft.

Though runways are "not attractive for investment," they are the key to air connectivity, he said.

"Low-cost carriers are very important to attract because they are the best developers of traffic," Treskunov told the Kyiv Post.

Only five airports in Ukraine have the infrastructure to accommodate the world's most popular commercial jet airliners — Airbus 320 family and Boeing 737 Max and Next Generation — without any restrictions. They are: Kyiv Boryspil International Airport, Lviv Danylo Halytskyi International Airport, Kharkiv International Airport, International Airport Zaporizhia and Odesa International Airport, according to Treskunov.

Air travel restrictions in 2020 resulted in a sharp drop in airlines' revenues and has led to massive layoffs; the number of flights sunk dramatically.

Monopoly oil market

Ukraine has had the most expensive aviation fuel price in Europe for many years. Fuel eats up 35% of airlines' total expenditure, according to Novikov.

Treskunov blames the "monopoly of local jet fuel producers combined with high import taxes" for the overpriced aviation oil. He explained that a majority of the airports in Ukraine get fuel from the Kremenchuk oil refinery plant, one of the largest producers of oil products in the country.

"Monopoly always restrains the development of the market and keeps prices high," Treskunov said.

The tax to import aviation fuel or even crude oil for production is high, and it is more profitable for retailers to sell petroleum for cars than for aircraft, according to Treskunov. He elaborated that the cost of transporting oil products via railway is also expensive, and Kremenchuk, located in central Ukraine, is too far from most airports.

In order to weaken the monopoly, Treskunov advises creating incentives to attract big international players selling ready-made fuel or oil, or developing a second jet fuel plant in the country.

"Competition drives the economy and reduces prices," he said.

Eliminating VAT

While Treskunov estimates lowering aviation fuel prices at least to the level of the European market will make tickets for domestic flights 15–20% cheaper, getting rid of the value-added tax (VAT) will reduce prices by another 20%.

"Only these two factors can decrease the cost of the tickets by 30–40%," he said.

Despite years of promises to abolish VAT on domestic air transportation, the government began moving in that direction just recently. Meanwhile, international transportation of goods, passengers and their luggage is tax-exempt.

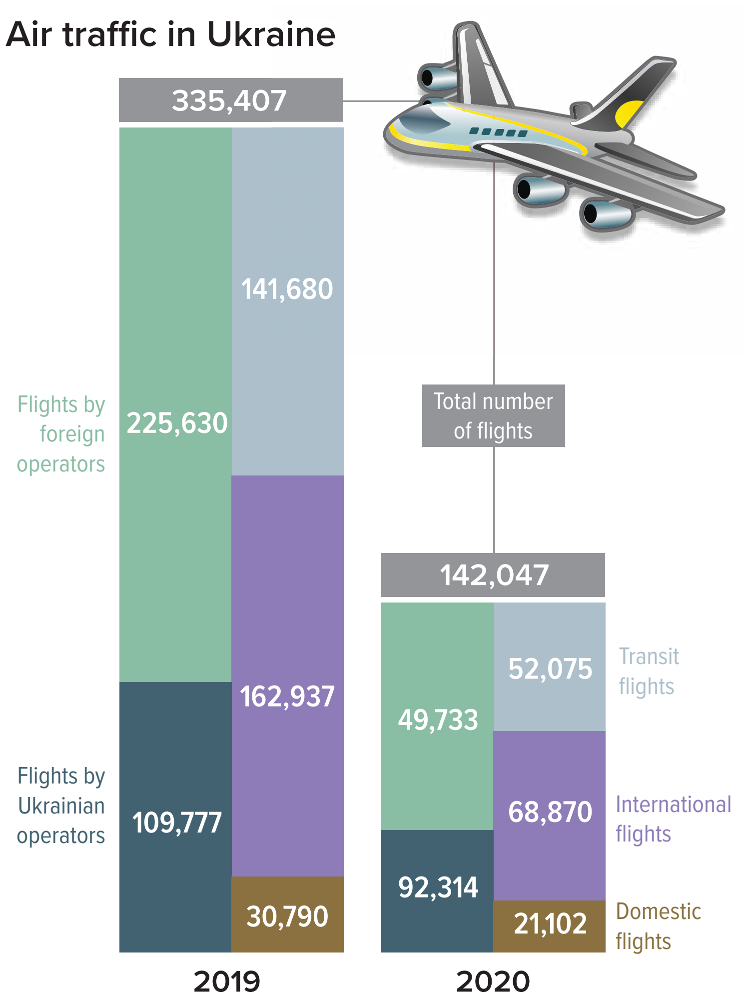
Prime Minister Denys Shmyhal said during a meeting in April that the Cabinet of Ministers will develop a bill for a zero-VAT rate on domestic flights by summer to reduce ticket costs and revive tourism in the country.

The press service of Ukraine International Airlines told the Kyiv Post that the abolition of VAT for flight operations within the country would help the company attract customers who always travel by train.

But the airline will only consider lowering domestic airfares if the zero VAT rate applies to all goods and services such as fuel, handling and catering.

If airlines are able to make domestic flights cheaper, it would improve the mobility of the population and increase business productivity. When domestic airfares become more affordable, railway operators will realize that they now have a new competitor and improve their service, according to Novikov.

"It will force everybody to keep developing and offer better services," he said.



Source: Ukrainian State Air Traffic Services Enterprise

Kostyantyn Chernichkin

Public-private partnerships hold promise to upgrade Ukraine's highways

Ukraine has its hopes pinned to public private partnerships to attract billions of dollars in private capital to rebuild, maintain and operate thousands of kilometers of nationally important highways.

By Liliane Bivings bivings@kyivpost.com

One can drive free of charge on Ukraine's 170,000 kilometers of roads. This means that the country is potentially losing out on millions of dollars per year that could be used to finance their construction and maintenance.

This is one of the many reasons why Ukraine scored a lamentable 130th place out of 137 countries on the most recent World Economic Forum survey of road quality in 2018.

Attempts to introduce toll roads have failed, including plans to build a new toll road between Lviv and the Polish border. Low traffic flows, among other problems, turned investors off.

Ukraine's highways may, however, may still have their heyday.

The Ukrainian government is launching six public-private partnerships (PPPs) to rebuild and maintain around 1,400 kilometers of nationally important highways. Instead of building toll roads, the government is using a PPP model to attract private capital.

If these pilot projects work well, the idea is to expand PPPs to an additional several thousand kilometers of important international and national highways. Above all, says Oleksandra Azarkhina, head of the reform team at Ukravtodor, PPPs would "allow us to elevate the road sector to international levels."

The right fit

As part of President Volodymyr Zelensky's Big Construction program to repair 30,000 kilometers of state roads, the government has pledged a record $1 billion by 2024.

Even with record government spending, "the efficiency of that spending is under question," says Volodymyr Shulmeister, former first deputy minister of infrastructure. Both a lack of effectiveness in the government and budget shortfalls necessitate private sector investment.

That's why the government is turning to PPPs. When they are done correctly, the government and end-users of infrastructure gain from the expertise and efficiency of the private sector.

Typically, PPPs involve concession-style toll roads in which investors profit from a stream of revenue that comes from fees. This doesn't work in Ukraine: traffic flows are well below the average 12,000–15,000 vehicles per day needed to justify the risk to an investor. Additionally, alternative free routes alongside toll roads are not always available. And, with no history of toll roads, there is low acceptance to paying for roads.

After years of trying and failing, decision makers in the government are finally getting the picture.

"Past failures had to happen and key decision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makers had to get to the point where they could see how it could be done differently," says Oleg Kudashkov, investment officer at the International Finance Corporation.

The IFC, the European Bank of Reconstruction and Development and the World Bank helped Ukraine complete two successful port concessions last year. They will also play an active role in helping to ensure the success of PPP in the road sector.

Ukraine is going with a "government-paid" model in which a private partner puts up all the money upfront and the government pays 100% of investor fees from the State Road Fund over contracts of 20 to 30 years.

This model addresses a host of obstacles in upgrading Ukraine's highway network: Private capital provides immediate financing, while long-term contracts and private expertise pick up the slack in maintenance; the government commitment to paying the investor avoids the unpopularity of toll roads.

According to Taras Boichuk, head of the SPILNO PPP management office in the Ministry of Infrastructure, this model is the only viable option for Ukraine right now.

An evolving model

While PPPs are crucial to upgrading Ukraine's highway network, the proposed 1,400 kilometers of PPPs represent under 1% of Ukraine's more than 170,000 kilometers of roads.

According to IFC assessments, the nearly $3 billion currently in the State Road Fund is already a huge step forward: five years ago, there was no Road Fund at all. But it's not enough to maintain the entire network and to build new roads.

The State Road Fund currently accumulates funds from excise taxes on fuel and vehicle sales. As electric vehicles become more prominent and less gasoline and diesel is consumed, that's less money for the Road Fund in the future.

Toll roads will have to be introduced eventually to generate additional revenue. In the beginning, tolls will only be levied on heavy vehicles and trucks. Most countries in Europe have classification systems for charging heavy vehicles based on weight.

Considering overloaded trucks are largely responsible for tearing up the roads, experts agree that hardly anyone will argue with introducing a payment system for heavy vehicles. The Ministry of Infrastructure estimates that additional levies on

An interchange in Poltava Oblast, part of the M-03 Kyiv-Kharkiv-Dovzhansky highway. The PPP model attracts private sector capital, expertise, and principles. In profit maximization mode, the private sector may be able to deliver the quality, modern highways Ukraine's public sector has failed to do.

> We need to be frank and open that (public-private partnership) projects aren't simple.
>
> — Jason Palmer, head of the IFC in Ukraine

trucks could add $3 billion annually to the road fund by 2025.

But according to Kudashov, there needs to be a national tolling strategy that determines the rates and technology that will be used. That will take time, but over the course of the next 5–10 years, "it's a conversation that has to happen."

"Once the highway system is properly rehabilitated, we don't want to get back to the situation where most of the roads are destroyed, and so to avoid that, you have to properly operate and maintain these roads. That costs money," Kudashov says.

In a PPP, the investor will also have an incentive to monitor overloaded trucks on their roads as they are the ones who pay to operate and maintain the highways.

Laying the groundwork

Before these projects are even implemented, further legislation and changes to the budget code are necessary to minimize risks for both the investors and the government.

While the 2019 law on concessions and PPP is widely considered to be sufficient to proceed with PPPs, changes to the budget code are necessary to allow for 20- to 30-year commitments as part of these PPP road construction contracts.

This law also guarantees that the traffic risk will not be transferred to the private partner. In other words, the investor will get paid regardless of the volume of traffic. To protect the government from overcommitting, the law will also place limits on how much money can go to the private investor from the Road Fund. The cap will most likely be 50% to ensure that there is money left over for other projects.

Nearly a decade ago, Ukraine increased green energy tariffs to spur investment in the renewable energy sector. But when the Energy Ministry turned around and slashed the guaranteed price in response to opposition in recent years, investors lost millions in investments. Investors in road projects will likely demand guarantees that the government will live up to its commitments, unlike in the green energy sector.

According to Boichuk, it is highly unlikely that any future government would destroy the State Road Fund, although "it's a high-risk, high-reward situation."

A long road ahead

Planning, environmental studies and detailed risk assessments are needed before a private company can even bid on a project.

One way to ensure that PPP projects are implemented properly from start to finish is by having agencies dedicated to grooming and supervising projects. Countries like Canada and Australia have strong records in infrastructure in part due to separate agencies dedicated to PPPs.

With the recommendation of the IFC, Ukraine established the PPP Agency in 2018 under the Ministry of Economy. However, the agency only has eight people, capable of managing five or six projects at a time, and lacks money, according to Boichuk.

As part of the law on concessions and PPPs, which is still under review in parliament, 10% of all concession fees would go to the Special Project Preparation Fund, providing a sustainable source of funding that could be used by the PPP Agency.

In the meantime, the Ukrainian government still has to hire IFC consultants to lay the groundwork and to conduct feasibility studies for each pilot project, select which of these six will go to tender first and to prepare the bids. This process can take up to six months.

Once that's done, the projects can go out for tender. The bidding process can take up to another six months. Realistically, construction won't even begin until 2023–2024.

"We need to be frank and open that these projects aren't simple, they take more time and preparation than simple public procurement, but it's worth the effort," says Jason Palmer, head of the regional IFC office in Ukraine.

Kostyantyn Chernichkin

Public-private partnerships will allow Ukraine to rebuild the roads now and pay later in installments over the next 10-15 years, solving constraints in funds that it doesn't have at the moment.

LOGISTICS

IN PARTNERSHIP WITH


Nova Poshta

An automatic sorting belt at a fulfilment center of Ukrainian parcel delivery service Nova Poshta. The demand for delivery soared during the pandemic.

Logistics companies keep investing, building and delivering amid pandemic

By Liza Semko semko@kyivpost.com

Ukraine is in the perfect geographical position to connect Europe and Asia. With trillions of dollars of GDP and a combined population size of almost 300 million, Ukraine's neighbors present a potentially huge market to be accessed through the country's roads, waterways and airspace.

While the pandemic took a big bite out of Ukraine's logistics market, the trends are positive.

Domestically, large retailers and e-merchants are growing, which is creating more demand for warehouse spaces and speedier and more technologically advanced delivery services.

Meanwhile, increased investments and infrastructure spending are paving the way for further growth.

CONTAINER SHIPPING DURING THE COVID-19 PANDEMIC

Artem Matukhno, *Communication Technology Manager*

From the very beginning of the COVID-19 pandemic, many feared that container shipping would face big problems and challenges. In the first half of 2020, the global economy sagged and it became clear that new difficult times were coming, making it necessary to adapt to the new conditions. There have been significant changes in the structure of consumption and purchases.

The coronavirus outbreak has severely affected container shipping as one of the segments of the transport industry most dependent on Chinese exports. Enterprises began to stand idle not making products that had to be shipped in containers. The demand for raw materials and goods from China has significantly decreased. Due to the lack of cargo, the capacity of ships began to decrease. This led to almost all sea carriers starting to lose huge amounts of money. Attempts to compensate for the losses by introducing additional freight surcharges had a negative impact not only on the commodity markets, but also on the markets of finished goods. Container lines began to massively revise long-term contracts, which were at risk of disruption and delay.

China was not only one of the first countries affected by the coronavirus, but also one of the first countries to restore production and exports. As a result, a lot of cargo in containers continued to be sent to America, but the containers were not returned. In Q3 2020, China experienced a real collapse: there was a shortage of containers in ports, which increased delivery times, as well as tariffs for container transportation, which reached historical highs.

Towards the fall of 2020, global trade began to slowly recover: the easing of quarantine measures, as well as stimulus policies aimed at supporting consumer demand, contributed to a further increase in container trade flows. However, despite trade's rapid growth , there were fewer and fewer free containers, and the prices for transportation increased significantly.

According to the data of the statistical service Container Trade Statistics, in October 2020, the global demand for container transportation was estimated at 15.21 million TEU, which is almost 5% more than a year earlier.

GLOBAL OCEAN LINK EXPERIENCE

At Global Ocean Link,we perfectly felt all these changes for ourselves, and this was clearly confirmed by the internal statistics of the company. Nevertheless, despite all the pessimistic forecasts, 2020 was quite a positive year for Ukraine. For the second year in a row, the container turnover in the ports of Ukraine exceeds the million mark. In 2020, it grew by almost 4% and reached 1.046 million TEU (the absolute record of Ukraine was set in 2008 at 1.254 million TEU).

Last year we managed to forward a much smaller volume of containers than we had planned – 29,788 TEU. However, our ambitions and optimistic attitude are still aimed at returning to the best performance in the new year. Surviving a crisis brings something new to the work, there is a study of problematic situations and their prevention and optimization. We toughen up, get stronger, and move on. This is the essence of modern logistics.

Despite everything, in the "pandemic" situation, alternative types of transportation, such as overland, began to develop. Consider the intermodal segment and especially rail transport. In 2020, more than 425,000 TEUs were transported across Ukraine, which is 10.7% more than in 2019. At the same time, 230,000 TEU were transported as part of container trains – 41% more than a year earlier.

ALTERNATIVES AND FUTURE PLANS

Volodymyr Huz, *Associated Partner of Global Ocean Link*

In January 2020, Global Ocean Link successfully launched a container train with 40 TEUs to Western Europe, which covered the experimental route from the Nickel-Pobuzhsky station to Rotterdam in 9 days. The main feature of this project was that the transportation took place on a new route through the border crossing "Mostyska-II / Medyka" directly to the Netherlands.

Later together with the logistics operator PCC Intermodal, we organized regular direct rail service between Poland and Ukraine. The main goal was to create a regular service in conditions when 87% of cargo transportation between Ukraine and the EU is carried out by road. In the first two months, more than 300 TEUs were delivered to their final destinations. Despite a not-so-fantastic start, this project attracts 3-5% of new TEUs on each train.

Also together with Maersk Line we launched a new railway route from the Port of Gdansk to Ukraine. Trains from Poland reach the Mostyska-II station, and then the cargo is transported along routes in the direction of Kyiv, Ternopil, Vinnytsia, Kharkiv, Dnipro and Odesa. Transit delivery time is less than 5 days. The new route is to become part of the transport corridor between the Baltic Sea and the Black Sea. The corridor will connect Turkey, the Port of Chornomorsk and Poland. In the near future, Global Ocean Link plans to expand new routes to Central Europe, especially towards Italy.

Recently, together with MOST Logistic Terminal, we launched a new multi-modal project – "Mostyska Container Terminal". The location on the border with Poland at the railway station "Mostyska-II" allows us to optimize the logistics routes for transit, export and import between Ukraine and the EU countries, thereby minimizing transport costs and, most importantly, the time required for transportation. We also plan to build a new generation logistics complex. The area for the future terminal is located close to Odesa, near the railway track and the international highway E95. The proximity to the Port of Odessa will allow us to deliver cargo efficiently and quickly. But at the moment, we are in the active stage of searching for partners and investors, and we will gladly consider all offers. Let's develop Ukraine together!

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Freight transportation

Cargo turnover on Ukraine's railways, seas and rivers decreased in 2020, falling by 11.2%, to 600 million tons.

In 2020, Ukraine's seaports handled 159 million tons of cargo, 0.7% less than in 2019, according to the Seaport Authority of Ukraine. Exports of cargo however increased by 1.5%, to 123 million tons.

In the first three months of 2021, ships transported 1.8 million tons on the Dnipro River, 66% more than in the same period in 2020, according to the River Information Service of Ukraine.

On the other hand, air transport companies increased cargo turnover by 5.2% in 2020.

Warehouses

Developers added around 85,000 square meters of new warehouses and logistics properties around Kyiv last year, according to real estate firm Cushman & Wakefield. In total, the area of the warehouse and logistics property in Kyiv and suburbs surpassed 2 million square meters.

By the end of 2020, vacancy rates increased to about 3%, but at the beginning of 2021, it's already back down to around 1.8%.

Demand is growing rapidly. Plans to add 75,000 square meters of warehouses in 2022 may not satisfy that demand, but nearly 300,000 square meters are in the pipeline until 2025. Would-be e-merchants and retailers may have to wait.

Delivery services

The demand for delivery soared during the pandemic, and postal services took advantage of the new reality, investing in their growth.

According to Euromonitor International, grocery e-commerce in Ukraine in 2020 increased by 107% compared to last year's indicators. Several new food delivery services and apps popped up in Ukraine during the pandemic.

State-owned postal service Ukrposhta closed offices in rural areas but invested in a fleet of 500 vehicles to provide the same services to Ukrainians living in remote places.

The European Bank for Reconstruction and Development granted a 63-million-euro loan to Ukrposhta to construct 1,900 mobile post offices, and the construction of three automated sorting centers.

Nova Poshta, Ukraine's largest private parcel delivery service opened 1,300 new postal offices in January-October 2020.

Outlook

Record amounts of government spending and investments in infrastructure, both from international financial institutions like the European Bank of Reconstruction and Development, International Finance Corporation and World Bank and investment firms like Dragon Capital are contributing to the overall of Ukraine's logistic infrastructure.

E-commerce is inching its way towards a boom. Sales volume in the e-commerce realm in Ukraine reached nearly $4 billion, which is 41% higher than in 2019, e-commerce firm EVO Group reported.

Such demand will require further expansion and investment in warehouses and delivery services. As e-commerce demand grows, Ukraine will need better roads to match consumer expectations of short delivery times.

> **Large retailers and e-merchants are growing, which is shifting the demand for more warehouse spaces.**

Kostyantyn Chernichkin

A customer receives a delivery at one of e-retailer Rozetka's branches in Kyiv. E-commerce shows no signs of slowing down in Ukraine. The Payoneer Global Seller Index put Ukraine on the list of top 10 countries with the highest year over year e-commerce revenue growth.

Oleg Petrasiuk

Liki24.com CEO Anton Avrinsky poses for a picture on April 27, 2021. Liki24 delivers thousands of medicines per day and has a novel for the market approach to logistics.

Geeks from Liki24 disrupt conservative pharma, deliver medical products

By Denys Krasnikov krasnikov@kyivpost.com

It's hard to believe that there was a time when couriers with yellow, green and orange backpacks didn't flood the streets of Kyiv. But it was just two years ago when the first international delivery, Spanish Glovo, entered the scene.

Now apart from Glovo, there's also the Estonian Bolt Food and the Ukrainian Rocket. And the market to which they cater keeps growing. Capital investment in the delivery sphere reached $17 million last year, a 635% increase year over year.

But it's not a food delivery service that got the lion's share of this sum. Five investment funds, including superstar Horizon Capital, iClub, TA Ventures and Genesis Investments, put $5 million in a Ukrainian startup that delivers medical products.

Called Liki24.com, the service delivers thousands of medicines per day and has a novel for the market approach to logistics.

Some drugs may be cheaper in one store, others — in a store across the street. A Liki24.com courier will visit the two or more pharmacies to get the best bargain. Although it's more time-consuming, as the courier collects and delivers 30–40 orders at a time, this approach helps clients save on the price difference across pharmacies and save on petrol for the delivery.

Liki24.com CEO Anton Avrinsky says this market has a $4 billion potential in Ukraine, and this is how his team is tapping into it. Thanks to Avrinsky's 15-year experience at a software company, Liki24.com's team is equipped with cutting-edge software that collects orders and builds the routes, which makes the company delivery stand out.

"The pharmaceutical industry is one of the most conservative in the world," Avrinsky says. "And we — we are extra IT, tech guys, geeks."

Crazy growth

Liki24.com started working in 2017. There had already been companies bringing pharma online. Search engines MedBrowse and Tabletki.ua had been around for 10 years, but the law didn't allow them to sell drugs on the internet — people could only book medication online.

Avrinsky found a way around it.

"I asked lawyers, 'If a person can't walk, what should he do?'" he says. And it turned out one could authorise a courier to be their legal representative when picking up an order at a pharmacy. "It was an offline sale initiated by an online order," he describes.

People liked it and started using the service. In 2019, the turnover of the company, which had existed for fewer than three years at the time, was $12 million.

Along the way, Liki24.com started attracting investment. Its external money came at the end of 2018, when deputy head of investment company Dragon Capital Oleksandr Ublinskykh invested $10,000 for a 3% stake.

In 2018, Liki24.com also won $10,000 at the Lviv IT Arena startup competition. The main prize, however, was attention from investors. A year later, in July 2019, TA Ventures and Genesis Investment, as well as angel investor Michael Puzrakov bought 15% of the company for $1 million.

Puzrakov, who apart from investing runs the 1,500-person tech firm Intellias, observed the Liki24.com founder at IT Arena. He was so impressed that he invested money without even meeting the founder in person.

When the pandemic hit Ukraine in 2020, more people stayed home and the Liki24.com service became even more handy. The business grew sixfold. "The pandemic helped people get used to ordering stuff online, including those from the province."

In summer, Liki24.com attracted $5 million more, bringing its total funding to $6 million.

Elena Mazhuha, an investment manager at Genesis Investments, which invested in Liki24.com twice, praises the startup's fast revenue growth. "When we saw its business metrics, we immediately realized that Liki24.com has all the chances to become a large and profitable company," Mazhuha says.

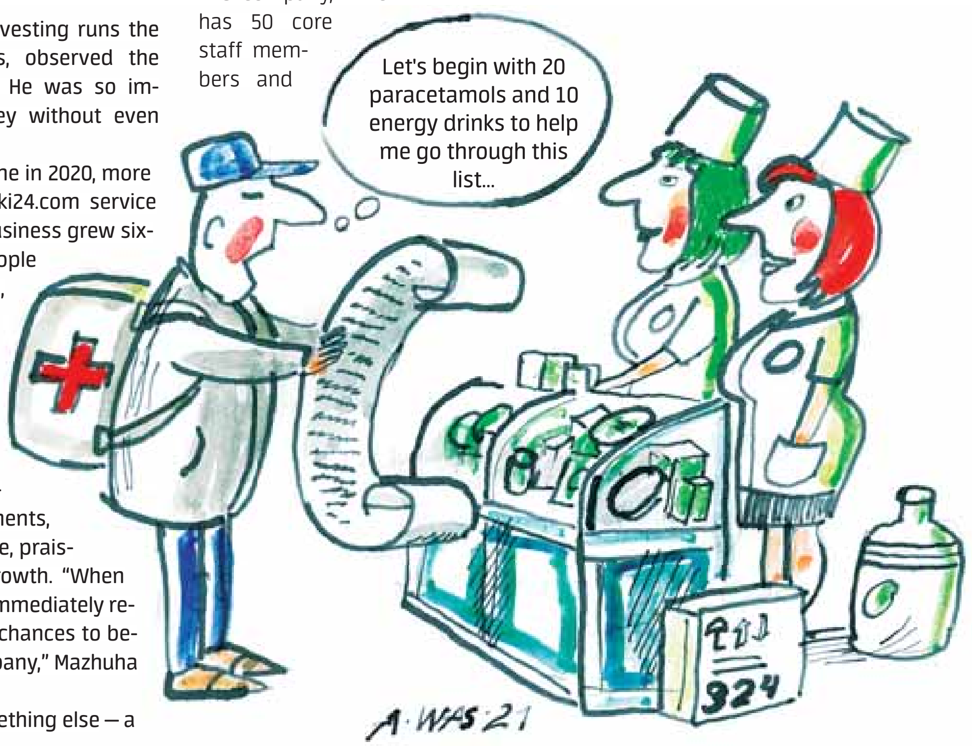
But the startup also had something else — a good team. Mazhuha says it has "strong technical skills, experience in managing tech projects and impeccable salesmanship."

The year 2020 brought one more change: the parliament made it legal to sell drugs online. Now pharmacies can too sell and deliver medication via their websites, much like some restaurants have their own delivery.

Avrinsky says this will help the market grow faster and believes Liki24.com was "a very important element for this to happen."

The delivery

The company, which has 50 core staff members and



A Liki24.com courier visits multiple pharmacies and collects 30–40 orders at a time, saving on the price difference across pharmacies and petrol for the delivery.

Logistics Index

The World Bank's Logistics Performance Index is a benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. The LPI is based on a worldwide survey of operators on the ground (global freight forwarders and express carriers), providing feedback on the logistics friendliness of the countries in which they operate and those with which they trade.

The following is the aggregated LPI on selected countries from 2012-2018, measuring such things as customs, infrastructure, international shipments, logistics competence, tracking & tracing, timeliness.

1	Germany
2	Netherlands
3	Sweden
4	Belgium
5	Singapore
......	
31	Poland
......	
69	Ukraine
......	
85	Russia

Source: World Bank

Liki24.com/facebook

In 2018, Liki24.com won $10,000 at the Lviv IT Arena startup competition. The main prize, however, was attention from investors.

100 couriers, has been operationally profitable since the beginning of 2020.

Liki24.com delivers 70,000 items: 15,000 of them are medicines; the rest is things like medical cosmetics, diapers, dietary supplements and vitamins. About 550,000 people have used the service at least once; 60% of them have ordered more than once. A delivery costs $2–4.

Around 7,000 pharmacies have connected to the service. "Often, these are small stores that can increase sales by literally doing nothing," Avrinsky says.

For pharmacies, it's an opportunity to get additional discounts from distributors and generally get online presence, which is important in the country where the competition is cut-throat. Ukraine has 21,000 drug stores. For reference, Poland has 14,000 drug stores.

"Pharmacies are getting super sales," Avrinsky says.

Alina Sakovska, commercial director at Farmasfera, which runs nine pharmacies in Ukraine, has worked with Liki24.com for three years. Sales through Liki24.com grow fast, because more people order online nowadays, she says.

Sales through Liki24.com bring Farmasfera a net profit of $1,100 a month. "For us, it's a benefit, we don't spend any of our resources," Sakovska says, adding that it's also promoting the chain. "It's easy to work with them."

The company is now also working with perfumery and cosmetics stores EVA, delivering hygiene products like shampoos and shaving foam, as well as cosmetics.

Liki24.com's couriers deliver in 300 cities, while 27,000 other cities, towns and villages can place an order on the website and receive it through postal services Ukrposhta and Nova Poshta.

In a remote village, it's sometimes cheaper to order through Liki24.com and get it delivered, because local pharmacies have low turnover and are forced to increase prices; they also have small inventories. About 10 million Ukrainians live in small villages.

The service also allows people to book drugs and take them away independently. Liki24.com gets a "several percent" commission from the sale. "This way we cover all possible clients' situations. The lowest price here, the quickest delivery here," Avrinsky says.

Other revenue streams

Apart from delivery, the company has other sources of income: website traffic and partnerships with health insurance firms.

Avrinsky is proud that his website has 72,000 visits a day and over 2 million per month. Liki24.com uses its popularity. It offers companies to promote their products for money — when people look for drugs, the website displays promoted products at the top of the search.

The company also works with insurance companies, offering subscriptions and payments per order. The company doesn't disclose the prices. When a doctor prescribes drugs, an insurance firm orders them for its client through the Liki24.com platform, saving money and time.

Entering Poland, UK

Liki24.com became an international company in 2020 when it entered Warsaw in Poland, where the drug retail market is three times bigger — $11 billion. This year, the company plans to expand across the entire country.

But it won't stop at Poland. When talking to the Kyiv Post in August 2020, Avrinsky said the company planned to roll out elsewhere in Europe and the U.K. The British pharmaceutical industry is among the seventh largest in the world, with a market value of around $29 billion, which makes it "a great fit" for Liki24.com, Avrinsky said at the time.

Today he avoids naming the countries, because he wants to "have it done first and then talk about it."

Avrinsky wants Liki24.com to work in 10 countries by 2024. "This is our ambition," he says.

Demand for warehouse space is rapidly outgrowing what's available. Vacancy rates have plummeted to almost 0% near Ukraine's highways.

Warehouse developers struggle to keep up with demand

By Liliane Bivings bivings@kyivpost.com

Ukraine's warehouse developers had better get a move on.

The warehouse and logistics market weathered the pandemic gracefully as more people ordered groceries from home and pre-pandemic trends favoring e-commerce accelerated.

After vacancy rates dipped to 0.8% in 2019, developers rushed to add 85,000 square meters of warehousing and logistics property in 2020, the largest increase since 2014, according to Cushman & Wakefield, a real estate firm.

But the current supply of roughly 2 million square meters of warehouse and logistics space is still not enough to meet demand as large retailers increase their inventories and go digital and e-commerce continues to grow. Low rents and a lack of proper debt financing, however, are discouraging developers.

Global trends in e-commerce may give the market the push it needs to develop faster, but for now, "the warehouse market is in a bad place from a commercial real estate perspective," says Nataliia Sokyrko, head of industrial and logistics brokerage at CBRE Ukraine, a real estate firm.

Rising demand

Despite the downturn last year, demand for warehouse space went nowhere. In 2020, firms in Ukraine leased 160,000 square meters of new warehouse space, according to CBRE Ukraine.

Large supermarket chains and logistics companies clearly needed more storage to meet offline demand: more than three quarters of all new leases were linked to these types of companies.

Vacancy rates have therefore plummeted to around 1.8% in the Kyiv metropolitan area from 2.9% at the beginning of the year. Vacancies next to highways are near zero, an obvious sign of high demand and a dire lack of space, according to CBRE Ukraine.

And companies want more space. Cushman and Wakefield says that a third of all lease transactions in 2020 in the Kyiv metropolitan area were pre-lease agreements for warehouse and logistics space.

A significant amount of pre-leases point to a low availability of existing stock and warehouse space. "The problem isn't that there is no interest or demand, it's that there's nothing to buy right now," said Dmytro Pasenkov, head of industrial and logistics at Cushman & Wakefield.

And decreasing vacancy with nowhere to go is a problem for tenants facing upward pressure from developers taking advantage of low availability of space.

Supplying the market

To meet the demand, more warehouses are in the works. According to Cushman & Wakefield, another 75,000 square meters are planned for 2021. There are also plans to add nearly 300,000 square meters of warehouse and logistics space, but some of those projects may not cut the ribbon until 2025.

The majority of new projects in the pipeline are also specialized. Retail giants Rozetka, Nova Poshta, and Epicenter K are building custom warehouses to meet their specific logistical needs.

Last year Epicenter K, Ukraine's largest chain of home improvement and gardening stores, repurposed 20,000 square meters of property at their Viskozna Fulfillment Center from retail to logistics.

Retail giants need the space to grow. But build-to-suit development leaves little in the way of speculative warehouse development — smaller 20,000 square foot warehouses that could be built and rented out quickly.

Potential developers are wary. Low rents over the past several years have dampened aspirations to build in the absence of debt financing. This wait-and-see game developers have been playing has caused a lack of supply, and in the meantime, rents have been steadily increasing — an inconvenient situation for tenants.

Rents in other parts of Europe are similar, and actually lower in some cases, but unlike in Ukraine, those developers have access to cheap money. Without debt financing, construction is costly for Ukrainian developers. When it costs them $500 per square meter, developers are uninterested in using their own money to develop, especially if they haven't secured lease agreements.

Potential tenants, for their part, are wary of entering into agreements with developers, unsure whether or not the developer has the financing.

To add to that, building in Ukraine runs up against several regulatory and legal obstacles. Getting permission for construction in Ukraine can be a long process because of bureaucracy and its many rules. Installing proper utilities is often also a problem.

Total investments in warehouse real estate amounted to a measly $4.3 million in 2020, an 86% decrease year over year, according to CBRE.

Not all developers are so shortsighted. Dragon Capital, one of Ukraine's largest investment firms, just purchased the 100,000-square meter Amtel Complex outside of Kyiv. In total, Dragon Capital owns nearly 400,000 square meters of warehouse and logistics properties.

The firm is also planning a 200,000-square meter E40 industrial park near Zhytomyr, 140 kilometers west of Kyiv.

There's a risk they will monopolize the warehouse and logistics market, but on the other hand, they have the expertise and resources to educate the market, according to Sokyrko. "Lease agreements were very weak before Dragon Capital came along. They are providing some standardization and methodology in leases," she says.

Growing with digital world

An educated warehouse market will be crucial as e-commerce grows and larger retailers continue to go online, requiring bigger and more quality warehouse space.

E-commerce shows no signs of slowing down in Ukraine. The Payoneer Global Seller Index put Ukraine on the list of top 10 countries with the highest year over year e-commerce revenue growth.

Online retail sales soared by 41% in 2020, exceeding expectations by almost three times, according to EVO, a leading marketplace company. Online grocery sales alone increased 107% in 2020 from the previous year. Euromonitor International estimates that the share of e-commerce in total sales is poised to reach 11% of total sales in 2025, up from 8% in 2019.

In other parts of the world, like in the United States or Britain, those shares in 2020 were closer to 14% and 23%, respectively.

This all means there is nothing but room for growth in Ukraine. As e-commerce expands, large retailers and e-merchants will need more space. According to CBRE, online retail typically needs three times as much space as traditional stores, because internet shoppers expect a wider variety of goods.

Dragon Capital

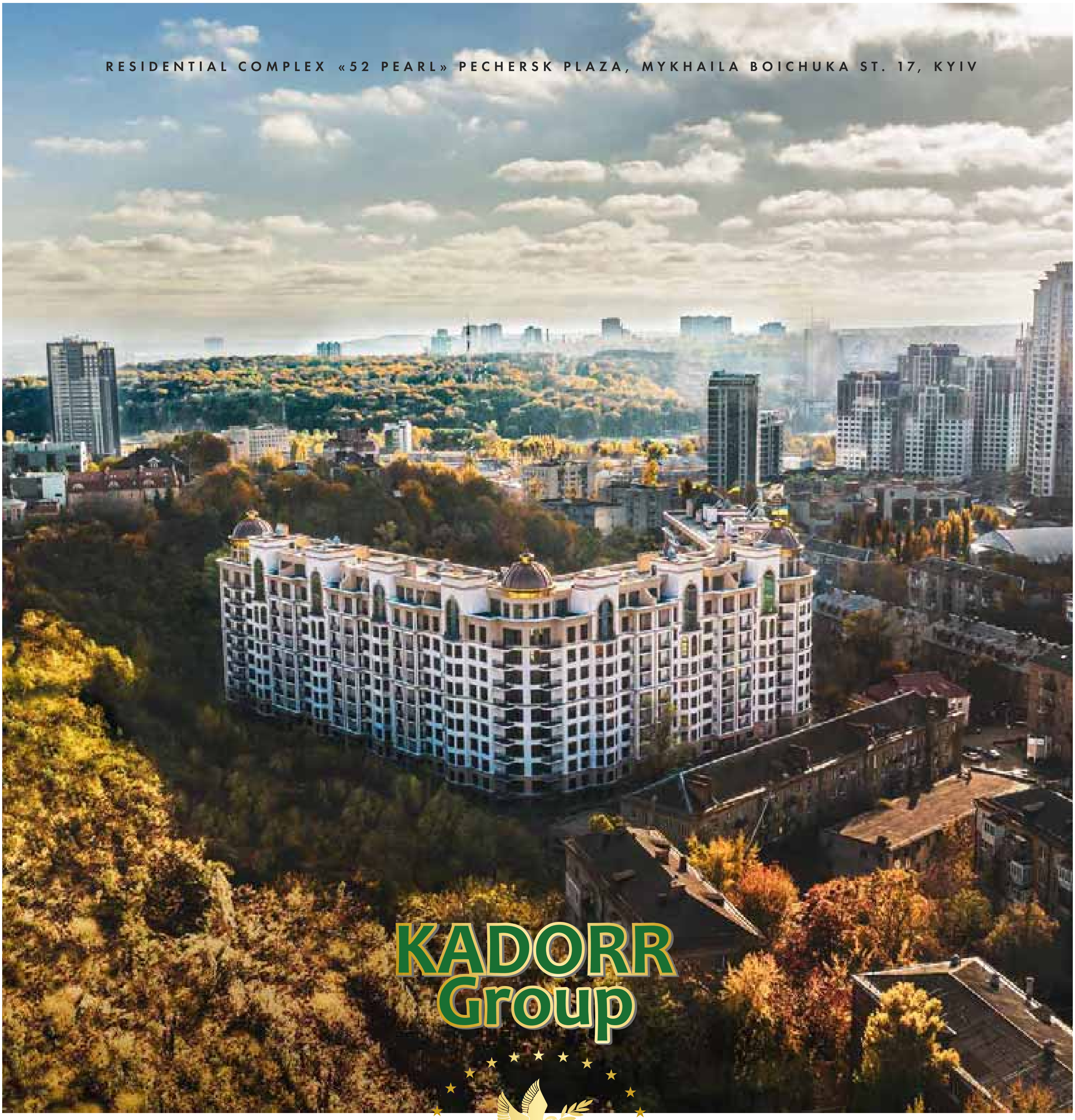
Dragon Capital, Ukraine's largest investment firm, purchased the 21,500-square meter Arctic logistics complex from Oschadbank last year. After acquiring the complex, warehouse space accounted for 48% of Dragon Capital's commercial real estate portfolio.

The rise of e-commerce will only encourage development, according to Marta Kostiuk, head of research and development consultancy at Cushman & Wakefield.

And there are already positive signs that investment will increase. International institutions like the European Bank for Reconstruction and Development have revamped their real estate efforts in Ukraine. The presence of international financial institutions is crucial in changing the risk perception of Ukraine among investors.

The bank is extending a $12.5 million loan to Dragon Capital for the refurbishment of a 9,000-square-meter office building in Kyiv and the acquisition of two warehouses in Kyiv and Kharkiv with a total 26,000 square meters.

"There is a lot more recognition of the market than before," Kostiuk said. "If you don't want to develop residential real estate in Ukraine, then you're looking into logistics."


RESIDENTIAL COMPLEX «52 PEARL» PECHERSK PLAZA, MYKHAILA BOICHUKA ST. 17, KYIV
KADORR Group

Business Associations

Business Association	Year founded	Number of members	CEO	Contact information
U.S.-Ukraine Business Council	1995	203	Morgan Williams	usubc.org 1030 15th Street, N.W., Suite 555 W, Washington, D.C. Tel: +380503582681; +12022160995 email: ldudnyk@usubc.org; mwilliams@usubc.org
European Business Association	1999	1,039	Anna Derevyanko	eba.com.ua 8 Moskovska St., Creative States Arsenal (building 7) Tel: +380444960601 Fax: +380444960602 email: office@eba.com.ua
American Chamber of Commerce	1992	611	Andy Hunder	chamber.ua 12 Amosova St., Kyiv, 03038, Ukraine Tel: +380444905800 Fax: +380444905801 email: chamber@chamber.ua
Ukrainian-Austrian Association	2017	30	Alfred F. Praus	ukrainian-austrian-association.com 1-3 Kyrylivska St., Kyiv, 04080, Ukraine Tel: +380503529557 email: info@ukrainian-austrian-association.com
International Chamber of Commerce	1998	86	Volodymyr Schelkunov	iccua.org 19B Reytarska St., Kyiv, 01030, Ukraine Tel: +380442344273 email: office@iccua.org
Ukrainian Chamber of Commerce & Industry	1992	7,848	Gennadiy Chyzhykov	ucci.org.ua 33 Velyka Zhytomyrska St., Kyiv, 01601, Ukraine Tel: +380445842824 email: ucci@ucci.org.ua
Camera di Commercio Italiana per l'Ucraina	2006	800	Maurizio Carnevale	ccipu.org 143/2 Velyka Vasylkivska St., Kyiv, 03150, Ukraine Tel: +380442231612 Fax: +390110960537 email: info.ua@ccipu.org
British Ukrainian Chamber of Commerce	1997	200	Bate C. Toms	bucc.com.ua 18/1 Prorizna St., Kyiv, 01001, Ukraine Tel: +380444906000 email: buccukraine@bucc.com.ua
Canada-Ukraine Chamber of Commerce	1992	121	Zenon Potoczny	cucc.ca 6 Muzeyny Ln., Kyiv, 01001, Ukraine Tel: +380444958551 Fax: +380444958545 email: ukraine@cucc.ca

Business Association	Year founded	Number of members	CEO	Contact information
Polish-Ukrainian Chamber of Commerce	1992	231	Jacek Piechota, Oleksandr Shlapak	pol-ukr.com 4/10 Khoryva St., Kyiv, 04071, Ukraine Tel: +380442214878 email: kiev@pol-ukr.com; info@pol-ukr.com
Danish Business Association	2010	58	Lars Vestbjerg	dba-ukraine.com 48A Gorodnytska St. Lviv, 79019, Ukraine Tel: +380676746866 email: lars@vestbjerg.com
Deutsch-Ukrainische Industrie-und Handelskammer	2015	150+	Alexander Markus	ukraine.ahk.de 34 Puschkinska St., 01004 Kyiv, Ukraine Tel: +380443775244; email: info@ukraine.ahk.de
French Chamber of Commerce	1994	144	Bertrand Barrier	ccifu.com.ua 10 Lypynskoho St., Kyiv, 01030, Ukraine Tel: +380442353664 email: ccifu@ccifu.com.ua
Norwegian-Ukrainian Chamber of Commerce	2008	116	Ketil E. Boe	nucc.no P.O. Box 634 Sentrum, Oslo, 0106, Norway Tel: +4798410602; +380674062874 email: post@nucc.no
Ukrainian Agribusiness Club	2007	100+	Alex Lissitsa	ucab.ua/en Tel: +380442980090 email: info@ucab.ua
European Economic Chamber of Trade, Commerce and Industry	2010	25	Stanislav Grygorskyi	eeig.com.ua 14A Dilova St. Kyiv, 03150, Ukraine Tel: +380442001040 email: info@eeig.com.ua
Chinese Commerce Association	2015	39	Wei Xing	cca.com.ua 10 Stritenska St. Kyiv, 01025, Ukraine Tel: +380731540772 email: info@cca.com.ua
International Turkish Ukrainian Businessmen Association	2004	200+	Burak Pehlivan	tuid.org.ua 112A Saksahanskoho St., Kyiv, 01032, Ukraine Tel: +380442343026; +380442352849 email: info@tuid.org.ua
Swedish Business Association	2017	16	Per Magnuson Bohdan Senchuk	sba.org.ua 10 Malopidvalna St., Kyiv, 01001, Ukraine Tel:+380672492043 email: info@sba.org.ua
Union of Industrialists and Businessmen of Turkey and Ukraine	2012	32	Zafer Ozbay	tusib.org 3A Levandovska St., Kyiv, 01010, Ukraine Tel: +380442002821 Fax: +380442245588 email: office@tusib.org
Ukrainian Business Association	2015	15	Volodymyr Chepovyy	uba.in.ua Tel: +380677009699; +380932275297 email: info@uba.in.ua